State and Local Government Policy Adoption: Section 218 of the Social Security Act

by

Kathleen Durbin Baxter

A dissertation submitted to the Graduate Faculty of
Auburn University
in partial fulfillment of the
requirements for the Degree of
Doctor of Philosophy

Auburn, Alabama
December 14, 2013

Keywords: Social Security Act Section 218, State and Local Governments, Public Pension Plans, Governmental Accounting and Budgeting, Tenth Amendment, Policy Adoption

Approved by

Cynthia J. Bowling, Co-Chair, Professor of Political Science
Keren H. Deal, Co-Chair, Professor of Accounting
Kathleen Hale, Associate Professor of Political Science
Hua Xu, Assistant Professor of Political Science and Public Administration

Abstract

This research examines state and local governmentsô decisions to participate in Social Security coverage for employees and the financial effects that mandating Social Security coverage will have on the budgets and pensions of these governments today. In the past, states had the option of accepting or declining Social Security coverage for their employees. Recently, however, the federal government has begun to consider mandating participation in Social Security. While the constitutionality of such a mandate may be debated on a federal level, the basis of this research focuses on state policy adoption and its effects. Since the states are considered the laboratories of government policy, insights gained from this study may enlighten federal policy decision making which directly impacts the states.

Under the Tenth Amendment of the U.S. Constitution, state and local governments and their employees were exempt from the Social Security Act. Since this meant that employees of state and local governments could not participate in Social Security, many of these governments established employee pension plans, which were equivalent or superior to Social Security. Subsequent amendments to the Social Security Act were made to ensure that state and local government employees were covered by Social Security or by a similar state pension plan.

The research identifies and analyzes factors which influence state and local governmentsô policy decisions regarding Section 218 of the Social Security Act, and examines the effects of these decisions on state and local budgets and pension plans. Prior research on federalism, intergovernmental relations, diffusion, and organizational decision making related to state policy adoption of Medicaid, Medicare and Unemployment provide possible factors that may have been

used in the state and local government decision process. These variables were used to analyze historically the changes in Social Security coverage for each state and local government. The research also identifies the possible financial effects that mandating Social Security coverage would have on state and local governments, pension plans and their employees.

ACKNOWLEDGMENTS

I would like to express my appreciation to the individuals who were instrumental in the success of this research. Thank you to Dr. Cynthia Bowling, Dr. Keren Deal, Dr. Kathleen Hale, Dr. Hua Xu and Dr. Bill Sauser, for your devotion not only to me but also for your commitment to providing the best educational experience to students. Your guidance in the classroom and throughout the research project was instrumental in my success. A special thank you to Dr. Keren Deal and Dr. Judy Kamnikar for believing in me and encouraging me to pursue my doctorate.

I would also like to thank the National Conference of State Social Security Administrators for their contributions and support, especially Dr. Maryann Motza, for verifying that the Social Security coverage information is correct. I would also like to thank my friend, Melanie May, and my aunt, Lucia Tatum, for helping to edit during the various stages of the research project.

I am blessed to have a great support group of family and friends that understand and support my lifetime learning initiatives. My parents, Jimmie and Judy Durbin, have always encouraged me to continue my educational pursuits. You have instilled in all of us the importance of education. To my siblings, Danny and Karen Durbin, and Pratt and Jennifer Bedwell, thanks for missing me when I had to devote time to studying and celebrating with me when I finished.

Thanks to my remarkable sons, Taylor and Hunter, for helping out so I could study and for supporting me no matter how hard it was to do without Mom. Lastly, thanks to my husband, Darrin, the love of my life. Thanks for believing I could do this and giving me The Go-Getter by Peter B. Kyne to help me find my ñblue vaseò when things got difficult and I wanted to give up .

Thanks to everyone for the unwavering love and support that made this endeavor possible.

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LIST OF ABBREVIATIONS

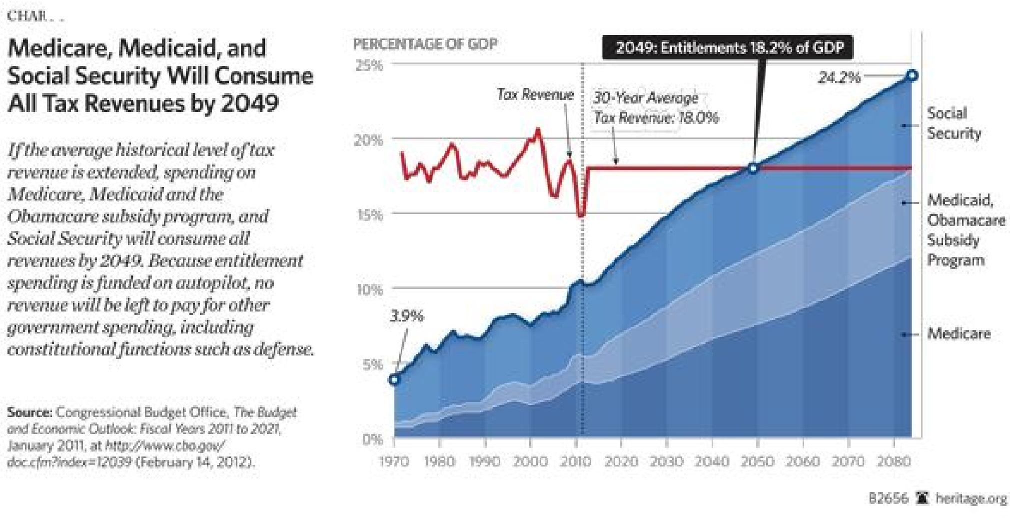
AFL-CIO	American Federation of Labor and Congress of Industrial Organizations
AFSCME	American Federation of State, County and Municipal Employees
CalSTRS	California State Teachersô Retirement System
CDBG	Community Development Block Grant
COBRA	Consolidated Omnibus Budget and Reconciliation Act
COLA	Cost of Living Adjustment
CPI	Consumer Price Index
CPRS	Coalition to Preserve Retirement Security
CRS	Congressional Research Service
CSSS	Commission to Strengthen Social Security
DHEW	Department of Health, Education and Welfare
EHA	Event History Analysis
FICA	Federal Insurance Contributions Act
GAO	Government Accountability Office
GDP	Gross Domestic Product
GPO	Government Pension Offset
IGR	Intergovernmental Relations
IRS	Internal Revenue Service
MAA	Medical Assistance for the Aged
NAPO	National Association of Police Organizations

NASRA	National Association of State Retirement Administrators
NBER	National Bureau of Economic Research
NCSSSA	National Conference of State Social Security Administrators
NEA	National Education Association
OASDI	Old Age, Survivors, and Disability Insurance Program
PERA	Public Employees Retirement Association (Colorado)
PIA	Primary Insurance Amount
PPCC	Public Pension Coordinating Council
Section 218	Title II Section 218 of the Social Security Act
SSA	Social Security Administration
UI	Unemployment Insurance
WEP	Windfall Elimination Provision
WIA	Workforce Investment Act
WIB	Workforce Investment Board

Chapter 1 Introduction

The Social Security Act of 1935 was enacted to provide pensions for the workforce, unemployment insurance, elderly assistance, aid to dependent children, and grants to states to provide medical care (Social Security Administration, 2013). Almost 80 years later Social Security is now the largest single item in the budget of the United States Federal Government with outlays of $768 billion in fiscal year 2012 (Congressional Budget Office, 2013). In January 1993, Social Security spending became the largest budget item, surpassing national defense (Fraser, 2012). Figure 1-1 shows that Medicare, Medicaid, and Social Security combined will consume all of the tax revenues by 2049 (Knudsen, 2012).

Figure 1-1 Medicare, Medicaid, & Social Security Consumes Tax Revenues by 2049

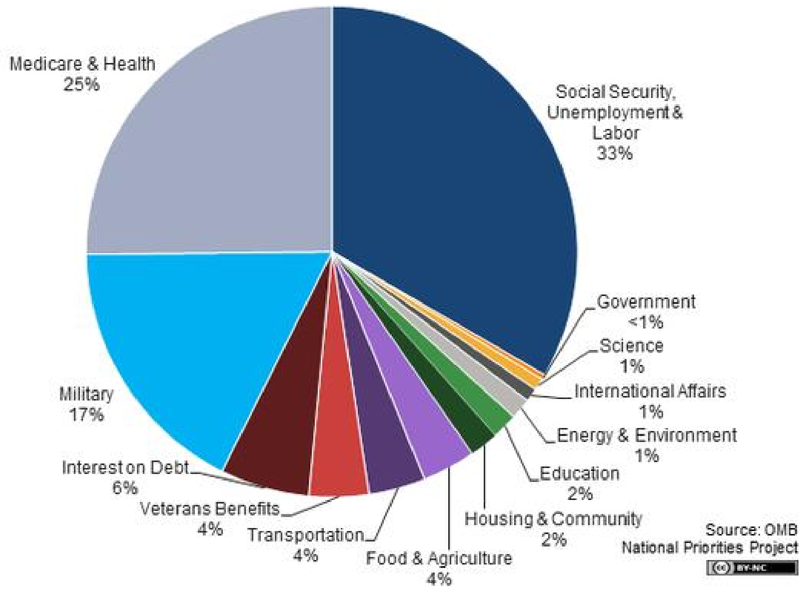


(Kramer, 2013)

Due to these issues, Social Security reform is necessary to mitigate this ongoing drain of resources while continuing to provide the benefits promised to the American retiree population.

President Barack Obama became the first Democratic president to propose a reduction in Social Security benefits when he presented the 2014 federal budget. Figure 1-2 provides a breakdown of the components of the Fiscal Year 2014 proposed budget (Kramer, 2013). His administration proposes using a chained Consumer Price Index (CPI) as an alternate method for compensating for inflation. This index would decrease the cost of living adjustment for Social Security retirees (Kramer, 2013).

Figure 1-2 President's Proposed Total Spending 2014



(Kramer, 2013)

The President has focused on changes to Social Security in the past. On February 18, 2010, President Obama established the bipartisan National Commission on Fiscal Responsibility and Reform co-chaired by former White House Chief of Staff Erskine Bowles (D) and former Republican Senator Whip Alan Simpson (The White House, 2010). President Obama stated the following:

> *For far too long, Washington has avoided the tough choices necessary to solve our fiscal problems – and they won't be solved overnight. But under the leadership of Erksine and Alan, I'm confident that the Commission I'm establishing today will build a bipartisan consensus to put America on the path toward fiscal reform and responsibility. I know they'll take up their work with the sense of integrity and strength of commitment that America's people deserve and America's future demands.* (The White House, 2010)

The commission outlined eight possible reform measures that would have significant direct effects on Social Security, as summarized below:

1. Index normal retirement age after 2022. Increase earliest eligibility age.
2. Modify the Primary Insurance Amount (PIA) formula.

3. Base the Cost of Living Adjustment (COLA) on a chain-weighted CPI.
4. Enhance the special minimum benefit for long-career low earners.
5. Increase benefits starting 20 years after initial eligibility.
6. Increase Old Age, Survivors, and Disability Insurance (OASDI) taxable maximum earnings amount.
7. Allow up to half of benefits at age 62.
8. Social Security coverage for non-covered state and local government employment. (Goss, 2010)

The first seven measures affect those individuals already covered under the Social Security system. The last reform measure involves the coverage of state and local government employees not currently covered under the system. Several organizations representing non-covered state and local government employees actively monitor legislation related to state and local government coverage including the Fraternal Order of Police.

In 2012, the Fraternal Order of Police gave the candidates for president, Democratic nominee President Barrack Obama and Republican nominee Governor Mitt Romney, a questionnaire. Question Number 3 on the questionnaire related to Social Security coverage for state and local government employees. The dialog between the Fraternal Order of Police and Obama and Romney was, as follows:

> ***Question:*** *…Will you pledge to oppose any plan and veto any legislation which includes a provision mandating participation in the Social Security System for either current or newly hired State and local government employees that do not currently participate in Social Security?*
> ***Obama****: I am committed to protecting and strengthening Social Security for future generations, without gambling Social Security benefits on the stock market, slashing benefits, or failing to protect retirees from seeing their basic benefits reduced. Any reform should strengthen retirement security for the most vulnerable, including low-income seniors, and maintain robust disability and survivors' benefits. While some have proposed extending mandatory Social*

> *Security coverage to all newly hired public employees to help close our funding shortfall, I have not supported any plan to mandate coverage.*
> ***Romney****: One of the great strengths of our system of government is the principle of federalism-the idea that we are stronger as a nation when each state is given the freedom to pursue its own course and adopt the policies best for its own citizens….I have proposed taking power away from Washington and giving it to the states. If state and local governments want to provide their employees with alternative pension programs that provide retirement security, the federal government should welcome that effort instead of seeking to interfere with it.* (911 Media.com, 2012)

Both partiesôcandidates suggested that they were opposed to mandating Social Security for state and local government employees. The topic, however, continues to be brought into the spotlight of the political arena of this country.

In a recent study on mandatory Social Security, Nuschler, Shelton, and Topoleski of the Congressional Research Service (CRS) found that Social Security currently covers approximately 94% of all the workers in the United States. The remaining 6% of the workers are non-covered state and local government employees. The 6% of workers not covered by Social Security make up 27.5% of the state and local government workforce (2011). This amounts to approximately 4.6 million public employees that are currently not covered by Social Security.

When enacted, state and local governments and their employees were considered exempt from Social Security legislation under state sovereignty provisions of the Tenth Amendment to the Constitution. Title II Section 218 of the Social Security Act, commonly known as the 218 Agreement or Section 218, was established in January 1, 1951, allowing voluntary Social Security coverage to government employees (Social Security Administration, 2013). Since state and local governments could not participate in the original Social Security legislation, many of these governments established pension plans that were equivalent to Social Security and often offered better benefits (Clark, Craig, & Sabelhaus, 2011).

In July 1991, Congress enacted mandatory Social Security coverage for all State and local government employees who were not already covered by a public pension (Nuschler, Shelton, & Topoleski, 2011). Recently Congress has been debating making Social Security contributions mandatory for the remaining uncovered state and local governments. In 2005, it was estimated that requiring the state and local governments to participate in Social Security would extend the Social Security trust fund solvency by 2 years at a cost of $44 billion over the first five years for the state and local governments (Coalition to Preserve Retirement Security, 2005).

This research looks at state policy adoption related to non-covered state and local government employees and the effects of mandatory coverage on these groups. Public pension plans for employees that are not covered by Social Security have been developed to provide similar coverage to Social Security. These plans often provide better or more appropriate coverage for the state and local government employee. Mandating Social Security to these non-covered groups will put a financial strain on the state and local government budgets, public pensions, and employees as well as alter the benefits provided to certain non-covered groups.

Section 218 of the Social Security Act

Voluntary Agreements for Coverage of State and Local Employees. Section 218 of the Social Security Act introduced to state and local government employers a method for providing Social Security coverage to their employees This act has been amended several times providing changes to the structure of the Social Security coverage for state and local government employees.

Evolution of Section 218 Social Security Policy. During the early 1930s the United States went through many changes that affected the economic welfare of the country. The

Depression caused a decrease in the financial resources of most of the population. There was also a change in the family structure. In the early 1900s, the extended family unit lived together and the younger generations took care of their elders. As much of the population moved to the urban areas to find jobs, the older generation and the less fortunate stayed behind at the farms and had to care for themselves. Many groups tried to develop some type of social program to help these poor and elderly individuals. President Franklin Roosevelt, in his New Deal, chose the insurance program approach as the cornerstone of his plan to combat the struggles caused by the economic insecurities (Social Security Administration, 2013).

Table 1-1 Evolution of Section 218 of Social Security Act

August 14, 1935	Social Security Act Established
January 1, 1951	Section 218 of Social Security Act Adopted to include state and local government employees
January 1, 1955	State and local government employees covered by pension plans included
April 1, 1986	State and local government employees hired after March 31, 1986 required to participate in Medicare.
July 2, 1991	Social Security coverage made mandatory for state and local government not covered by Social Security equivalent Pension Plan

President Roosevelt signed the Social Security Act into law on August 14, 1935 (Social Security Administration, 2013). This act established the Old Age Benefits program, which later became the Old Age, Survivors, and Disability Insurance Program (OASDI) (Social Security Administration, 2013). The Social Security Act covered most wages but did not cover state, local, and territorial government wages. The exception was made for state and local governments due to principles contained in the Tenth Amendment to the U.S. Constitution. This amendment states: ñThe powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the peopleò (U.S. Constitution, 1791).

In discussion of the original Social Security Act in 1935, Dr. E. E. Witte, Executive Director of the Committee on Economic Security, stated that governments were excluded from coverage because the federal government cannot impose a tax on the states. Social Security was considered a tax measure and therefore the Tenth Amendment prohibited the taxation by the federal government (Lortz, September 27, 1994).

However, revising the Social Security Act to include government employees under the newly established insurance system came early. The Advisory Council on Social Security first addressed amending Social Security to be mandatory in their final report to Congress during the first session of 1939.

> *The old-age insurance program should be extended as soon as feasible to include additional groups not included in the previous recommendations of the Council and studies should be made of the administrative, legal, and financial problems involved in the coverage of self-employed persons and governmental employees.* (Social Security Administration, 2013)

The change was addressed because some governments did not have sufficient retirement plans for their employees. Section 218 of the Social Security Act, established effective January 1, 1951, allows voluntary Social Security coverage to government employees (Lortz, September 27, 1994). Each state created a voluntary agreement with the federal government for a type of coverage. The next revision became effective in 1955 when Congress extended voluntary coverage to include those state and local government employees who were already covered by an established public pension plan (Social Security Administration, 2013). Some state and local government pension plans did not provide the benefit structure that Social Security was able to provide. Therefore, the 1951 Amendment, allowed these entities to adopt Social Security coverage to provide additional benefits for their employees. At this point, state and local government employers could cover any employee regardless of pension benefits.

In an effort to provide Social Security coverage to all employees, the Social Security Amendment of 1977 contained a provision for extending Social Security to the remaining non-covered government employees. This provision was removed and Congress directed the Department of Health, Education, and Welfare (DHEW) to conduct a 2-year study of the desirability and feasibility of covering the remaining non-covered employees (Snook, 1983). The Universal Social Security Group formed by this directive began researching the feasibility of universal Social Security and issued the report in March 1980. In the report, no specific recommendation was made for universal Social Security, but it was suggested that universal Social Security was feasible (Social Security Administration, 1981).

Congress also created the National Commission on Social Security in 1977 to identify "fundamental, long-term, comprehensive consideration for change in the entire Social Security systemò (Social Security Administration, 1981, pp. Introduction, para. 1). The Commissionôs final report in March 1981 recommended universal Social Security for all civilian employees of the Federal government and employees of state and local governments hired after 1984. Also included were all current and future employees of state and local governments not covered under a pension plan as of January 1, 1982, and current and future employees of nonprofit organization as of January 1, 1982. Medicare hospital insurance also was recommended for all federal civilian employees and state and local government employees as of January 1, 1982 regardless of whether these groups had Social Security coverage (Social Security Administration, 1981).

The recommendation of the National Commission on Social Security laid the foundation for a very important legislative event. In April 1986, Title XIII, Subtitle B of The Consolidated Omnibus Budget and Reconciliation Act (COBRA) became law. This law provides that governmental employees hired after March 31, 1986, are entitled to participate in Medicare health insurance coverage (The Commonwealth of Massachusetts Office of the Comptroller, 2006). Enacted as Public Law 99-272, the provision applies the Medicare tax to all newly hired state and local government employees effective April 1, 1986 (Public Law 99-272, 1999). This in essence set the stage for the federal government to push for mandatory/universal Social Security. Without much resistance from the states, the federal government was able to implement a tax on the states, which could be viewed as infringing on the statesô rights delineated by the Tenth Amendment of the Constitution.

With the enactment of mandatory Medicare, Congress began pressing further and introduced a new bill providing for additional mandatory coverage. The Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508) extended mandatory Social Security coverage to employees of state and local government that were not covered by a state or locally established pension plan (Kollmann, 2000). The only group not covered at this point was the state and local government employees that were covered by a pension plan equivalent or better than Social Security (Lehrer, 2011).

The Social Security Advisory Council continued efforts to include all employees, including those covered only by government pension plans. Excerpts from the Councilôs 1997 report included the following:

> *The long-standing goal of universal coverage under Social Security can be obtained by extending mandatory coverage to all State and local government employees hired after 1997…Moreover, all Americans have an obligation to participate, since an effective Social Security program helps to reduce public costs for relief and assistance which in turn, means lower general taxes…But there is still a lack of complete State and local coverage. It results from an earlier belief that Federal compulsion of the States to participate might not be Constitutional. In the light of several Supreme Court decisions dealing with Federal/State relationships in the area of labor law, it is now generally thought that there is no Constitutional barrier to compulsory coverage. Basically the issue of covering the last sizable group of workers not under Social Security is an issue of fairness. Newly-hired State and local government employees, like everyone*

else, should be part of this important national program. (Social Security Administration, 1997, pp. Recommendations, Section 15)

Originally, instituting mandatory Social Security was to provide a perceived financial benefit for both the employee and the federal government. The state and local government employees would be provided coverage to help offset the lack of appropriate state and local government pensions. The addition of non-covered government employees would help fund the ailing Social Security system. With the 1994-1996 Social Security Advisory Committee, an issue of fairness was now addressed.

Because of the Advisory Committeeȣs report, Congress requested the GAO investigate further into extending mandatory Social Security coverage to all newly hired state and local government employees. The report suggests that the inclusion of the newly hired government employees would decrease the financial shortfall of Social Security by 10%. However, this could come at a cost to the state and local pension plans, budgets and employees. The inclusion of Social Security would provide an increased tax to both the employer and the employee. The employer, either a state or local government, would have to either obtain the funds from the budget or perhaps decrease the contributions to the pension plan. The decrease in contributions to the pension plan could in turn cause a decrease in benefits to the employees (Fagnoni, 1998).

The employees would also have to pay their share. The employees could have both decreased benefits and an increased tax bill from the adoption of Social Security. Information from the Social Security Administration to the GAO estimated that 5 million state and local government employees are not covered by Social Security. Annual wages for the non-covered employees total about $132.5 billion. Seventy-five percent of the non-covered employees come from just seven statesð California, Colorado, Illinois, Louisiana, Massachusetts, Ohio, and Texas. Most of these employees were police, firefighters, and teachers (Fagnoni, 1998).

By identifying the states and positions that represented the majority of non-covered employees, the number of employees involved and the aggregate cost of their wages put a ñfaceò to the issue. These employees would most likely be affected if mandatory Social Security was enacted.

The issue of fairness was also examined. GAO addressed how Congress identified this issue with the following comments:

> *The Congress has established the government pension offset and windfall elimination provisions to reduce the unfair advantage that workers who are eligible for pension benefits based on noncovered employment might have when they apply for Social Security benefits.* (Fagnoni, 1998, p. 5)

The GAO still had issues with unfairness. GAOõs position on the unfairness issue came mainly from the failure to reduce benefits due to the inability to match the non-covered employees with their required Government Pension Offset (GPO) and Windfall Elimination Provision (WEP) (Fagnoni, 1998).

The Social Security program provides benefits based on the employeeõs earnings. Both the employer and the employee contribute 6.2%, a total of 12.4%, of the employeeõs earnings to Social Security. Because of the formula for computing benefits for Social Security, lower paid workers get a higher rate of return than higher earners. If the employer does not report the employee as a non-covered individual, it appears the employee was a low wage earner based on their Social Security covered wages. Therefore, the employee receives the higher benefit return. Under the WEP, the employeeõs non-covered employment is considered and the benefit return is adjusted accordingly (Social Security Administration, 2013).

GPO is similar to WEP except it is for the coverage of spouse's, widow's or widower's benefits. The spouse, widow, or widower benefits will be reduced by two-thirds of the government pension benefit that was not covered by Social Security. If the employee was not reported as a non-covered employee then the spouse/widow/widower benefit will be for the full amount of the pension plus the full amount of the Social Security at the higher rate (Social Security Administration, 2012).

Both benefit reduction programs require that the recipient of the Social Security benefits be identified as a non-covered government employee. The appropriate government does not always report this information correctly.

SSA was concerned with the types of errors being made by the reporting government and requested that the Inspector General review the state and local government for compliance with the coverage provisions (Fagnoni, 1998). In December 1996, the SSA's Office of Inspector General reported that the provisions related to Social Security coverage of state and local employees are complex, difficult to administer, and few resources were devoted to training state and local officials. The lack of training leads to a significant risk of noncompliance with state and local coverage provisions. A concerted effort was initiated by both the IRS and SSA to provide a better understanding of the 218 Agreement reporting requirements to the state and local government employers. The reported also suggested that extending coverage to all newly hired state and local government employees would eventually eliminate the problem (Fagnoni, 1998).

The GAO reports also discussed the implications of mandatory Social Security on state and local government employees. In their report, the GAO recognized that the requirement for states to pay Social Security contributions to the federal government could reduce the contributions to the statesô pension plans. This would reduce both the employeesô pension plan benefits, and reduce the funding mechanism for the pension plan (Fagnoni, 1998).

The Tenth Amendment state sovereignty issue has been addressed many times in relation to the constitutionality of mandatory Social Security. The April 1986 enactment of mandatory Medicare and the July 1991 enactment of mandatory Social Security on employees not covered by a pension along with the 1937 federal minimum wage requirements suggest that mandatory Social Security is legal. However, opponents believe that there still may be issues of legality. The minimum wage application to states had been voted down by the Supreme Court based on Tenth Amendment issues, but was ultimately upheld with a 5 to 4 vote. For mandatory Social Security to be considered unconstitutional, the Supreme Court would have to reverse itself, which is unlikely (Fagnoni, 1998).

Areas of Concern

Section 218 Agreement provisions have an enormous effect on state and local governments. This section of the Social Security Act is so complex that state and local governments often struggle to understand exactly what should be done under certain circumstances. Mandating Social Security is often brought up as a means of easing this burden on state and local governments. Mandating Social Security, however, comes at a price to the state and local budgets, pension plans and employees.

State and Local Government Section 218 Agreement Compliance. Each state is responsible for monitoring the creation of new governmental entities, changes, and deletions to governmental entities within the state as well as new employee positions within the state and the identification of different coverage groups.

Section 218 of the Social Security Act identifies groups of positions within the state covered by the act as absolute coverage groups and retirement system coverage groups. The coverage groups are defined by the employee positions not the actual employee (Social Security Administration, 2013).

The Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508) extended mandatory Social Security coverage to employee positions of state and local governments who were not already part of a retirement system (Kollman, 2000). This group of positions is known as an absolute coverage group. If the employee is not eligible to participate in a state retirement system, then Social Security coverage is mandatory if state enabling legislation permits such coverage and the state or its political subdivision voluntarily enters into a Section 218 Agreement. This ensures that an employee has retirement benefits.

The last group to be provided optional coverage by Social Security are those covered by a retirement system. This group of positions is known as a retirement systems group. If the employee is eligible to participate in a retirement system, then the coverage by Social Security is optional. This group allows coverage options for all positions under the particular retirement system. Under this type coverage, there are two different types of voting options, majority vote, and divided vote.

The majority vote option allows for a group of people who are members or a particular public retirement system to vote whether or not the group should be covered for Social Security. A majority vote will allow all employee positions in that group to be covered for Social Security from that point forward. No other elections can be held for that group in the future.

The divided vote referendum option allows individuals who are members of a public retirement system to vote whether or not they want their particular position to be covered for Social Security. The position is either covered or non-covered based on how that person votes. No other election can be held for that particular position in the future. This coverage is not available for all states. Twenty-three states have adopted the divided vote referendum option (Social Security Administration, 2009).

The Internal Revenue Service (IRS) performs audits of governmental entities; the audits include compliance with the 218 Agreement. Audits of the state and local governments revealed government employees who were participating in Social Security that did not have a supporting 218 modification. The audits also revealed government employees that were not paying Social Security because of incorrect interpretations of definitions and modifications. The audits triggered a Congressional investigation of the status of the 218 Agreements and the major issues surrounding the maintenance of the agreement. Congress appointed the Government Accountability Office (GAO) to investigate the situation. GAO recommended that SSA work with the IRS, state administrators, and public employers to improve management oversight and monitoring of public employer reporting of Social Security wages and provide clarification on its guidance related to state administrators responsibilities. GAO also recommended that IRS track the errors found through compliance efforts and share these results with SSA to the extent permitted by law (Government Accountability Office, 2010).

A recent case of misinterpretation of the law is an example of the seriousness of this issue. A 2004 IRS audit of the Missouri school systems found that many employees that should have been covered by Social Security were not paying Social Security while others were paying Social Security who should not be doing so. The law is so complex that a misinterpretation of the definition of ñteacherò caused a large number of education employees to believe that they did not have to pay Social Security. The affected population encompasses more than 500 school districts in Missouri (Federal Section 218 Task Force, March 31, 2009). Missouri made a major error even though the state has been active in modifying its 218 Agreement. This brought the administration of the 218 Agreements to the attention of the federal government and GAO. An error of this magnitude in an active state drastically increases the possibility of errors in states that are inactive.

Fiscal Stress of Mandatory Social Security

States choose whether they want their employees to participate in Social Security through Section 218 of the Social Security Act and related modifications. The states and their pension organizations must make decisions on whether to participate in Social Security. Several studies have been conducted to evaluate the fiscal effects these decisions will have on the state and local governments.

Mandatory Social Security and State Budgets. State and local government employees account for 38.5% of expenditures for salaries and benefits in the United States. In 1990, the National Conference of State Social Security Administrators (NCSSSA) estimated that the annual costs to state and local government employers to provide Social Security coverage to the non-covered employees would be in excess of $1.132 billion (Merrill, March 16, 1999).

In May 1999, the Segal Company prepared a report on the ñCost Impact of Mandating Social Security for State and Local Governmentsò (The Segal Company, 1999). This report was prepared for the American Federation of State, County and Municipal Employees (AFSCME), AFL-CIO and the Coalition to Preserve Retirement Security. The report details the many options available as a means of dealing with mandatory Social Security and the financial impacts of each scenario.

The report concluded that mandatory Social Security is not a solution to the Social Security systemôs solvency. The increased payroll cost to the public employers and employees would be $25 billion for the first five years and would only extend the trust fundôs solvency by two years. The report also suggested that shifting the contributions from the public pension to Social Security would cause the associated investment earnings to be lower. The lower earnings would have to be funded by the state or local government and their employees in the form of higher contributions. Current federal law requires state and local government employers to provide a minimum benefit guarantee comparable to Social Security to all employees so the employees in essence have the equivalent of Social Security (The Segal Company, 1999).

In 2005, the Segal Company recalculated the five-year cost to employees and employers for mandatory Social Security and the amount nearly doubled to $44 billion (The Segal Company, 2005).

The GAO investigated the problems with 218 reporting in 2010. Their report number 10-938 ñSocial Security Administration: Management Oversight Needed to Ensure Accurate Treatment of State and Local Government Employees,ò included information detailing the covered and non-covered wages of state and local governments. The research indicated that total annual salary for state and local government employees comes to more than $741 billion. Twenty-nine percent of these employees were non-covered representing a total annual salary of more than $213 billion (Government Accountability Office, 2010). Both the Segal Company and the GAO reports contain similar estimates. If the 28% - 29% who do not pay Social Security were required to pay the 12.4% Social Security tax (6.2% for both employer and employee), the cost would be approximately $26 billion dollars in Social Security payments. Half of this amount, or $13 billion, would come from the state and local governments and the other half from the state and local governmentsô employees.

States such as Ohio, Massachusetts, Nevada, and Louisiana would be the most impacted because of their high percentage of non-covered employees. Ohio has the most non-covered employees at 99% non-covered. Ohioõs current Social Security bill for their 1% covered employees is $17 million. Mandating Social Security coverage would increase this amount to $1.6 billion. Massachusetts is second, with 97% of their employees non-covered for Social Security. Their current Social Security payout is $34 million. This amount would increase to $956 million. Nevada and Louisiana round out the top four states with 96% and 83% non-covered employees. Their current payouts are $15 million and $84 million respectively. Changing to mandatory Social Security would increase their Social Security bill to $350 million (NV) and $410 million (LA). Mandating Social Security for just these four states would amount to an increase in Social Security costs for state and local governments of almost $3.5 billion (Government Accountability Office, 2010).

Mandatory Social Security and Public Pensions. According to Prah (2011) an estimated 6 million government workers jobs are not covered by Social Security. It is a common misconception that all government employees receive both a state pension and Social Security benefits. According to GAO, 27 percent of state and local public workers are exempt from Social Security. The bulk of uncovered public employees reside in 10 states. The 10 states are Alaska (58%), California (60%), Colorado (70%), Illinois (64%), Louisiana (83%), Maine (64%), Massachusetts (97%), Nevada (96%), Ohio (99%), and Texas (53%) (Government Accountability Office, 2010). The employer and employee share of Social Security for non-covered employees is in excess of $23 billion in one year based on 2007 salaries. The employer share would be approximately $11.5 billion. This $11.5 billion would have to come from either the state and local budgets or pension plans.

State and local government pension plans have a major impact on the financial stability of the US economy. Any drastic changes to these plans could affect not only the economy of the state or local government but also the national economy. In 2011, the 3,418 state and local government pension plans held just over $3 trillion in assets representing nearly $2.2 trillion in non-governmental securities, including $1 trillion in domestic stocks and $423 billion in corporate bonds, and $240 billion in governmental securities. The plans had $616 billion in income, which included $40 billion from employee contributions, $96 billion from government contributions and $479 billion from investment earnings (U.S. Census Bureau, 2011).

The systems not only contribute to the economy of the nation but some states also have specific legislation that protects their pension plans. ñAccording to data compiled by the National Conference on Public Employee Retirement Systems, 10 states, including 4 of the 5 largest, specifically protect public employee pensions in their constitutions, and in another 19, courts have ruled that other broadly worded constitutional provisions provide near-total protection for vested employee pensionsò (Lehrer, 2011).

In March 2005, then-Senator Barack Obama along with 10 of his colleagues sent a letter to Senate Finance Committee Chairman Charles Grassley stating their opposition to mandatory Social Security. The letter states that mandatory Social Security ñwould starve public pensions of the continued flow of new participants needed to maintain solvency. Such proposals would disproportionately harm Americaôs uniformed employees and place an undue burden on cities, counties, and statesò (United States Senate, 2005). At an expense of $44 billion to state and local governments, mandatory Social Security would add only two years to the solvency of Social Security (Coalition to Preserve Retirement Security, 2008). Studies involving several states documented the financial effects that mandatory Social Security would have on their pension systems. Terri Bierdeman, Chair of the Coalition to Preserve Retirement Security, made the following statement related to Social Security versus public pensions:

> *Mandatory Social Security would be felt in all 50 states and over time would add new beneficiaries to the program who would draw down benefits like other Social Security recipients, increasing financial pressures on the system…The least disruptive and most cost-effective solution would be to allow the well-established public sector retirement system to continue in its current form.* (Colorado PERA, 2011, p. 1)

According to the Segal Company, requiring all new state and local workers to join Social Security would increase Social Security revenues by $44 billion over five years (The Segal Company, 2005). Funding for the $44 billion would come from state and local governments. This could lead to tax increases, education and public safety cuts and cuts in other vital government services. The stabilization of public employee retirement funds could also be effected (Coalition to Preserve Retirement Security, 2006).

The National Education Association (NEA) also strongly opposes mandatory Social Security coverage. The NEA is concerned that mandatory Social Security could cause a financial burden for state and local governments and weaken existing government pension plans that offer benefits superior to Social Security. They are also concerned about increased tax burden on governments leading to reduced new hires, wage increases, cost of living increases for retirees and reductions in other benefits such as health care (National Education Associaton, 2013).

Many organizations agree that the effects of mandatory Social Security on state pension plans could have a devastating effect. The state pensions are a major contributor to the economy of the nation not only by providing excellent pensions to their employees but also by investing large amounts of money in both corporate and government securities.

Mandatory Social Security and Excluded Groups. In 2007, Representative Xavier Becerra of California and Representative Richard Neal of Massachusetts were honored with the Soaring Eagle Award by the Coalition to Preserve Retirement Security for their commitment to defending efforts to force public employees outside of Social Security to join. Becerra recognized the harm that mandatory coverage would do to the existing public pension funds. His concerns were most noted with the protection of the retirement systems for police and firefighters, the most highly excluded group of public employees.

Police Officers. The Public Pension Coordinating Council (PPCC) estimates police officers, firefighters and other public safety personnel make up 76% of the public employees not covered by Social Security (Fraternal Order of Police, 2011). This group of employees requires pensions that are different from the average employee.

Public safety workers generally have pension plans that offer retirements in fewer years than the average worker and usually somewhere around 55 years of age. The stress and danger that public safety workers face every day requires an early retirement option. The public safety pension plan also offers the line of duty disability that will allow the public safety worker to draw disability based on specific work related incidents as opposed to total worker disability (National Assocation of Police Organizations, 2008).

Firefighters. Firefighters represent a large portion of government workers not covered by Social Security. Most firefighters participate in specialized pension plans that are designed to meet the unique circumstance required by firefighters such as compensation for early retirement ages and high disability rates. Of this group, more than 70% are not covered by Social Security.

As recently as 1994, firefighters were not allowed to participate in Social Security (International Association of Fire Fighters, 2011).

Public safety workers are a unique group of workers that should be offered specific pension plans with options for early retirement and special disability considerations. According to the National Association of Police Organizations (NAPO), reducing current retirement pensions, death benefits, and line-of-duty disability pay for public safety officers would provide public safety officers and their families with less protection. Altering the public pension provisions for public safety personnel could cause these careers to become less desirable, making it more difficult to retain and recruit qualified personnel (National Assocation of Police Organizations, 2008).

Social Security as Viable Alternative for Public Pensions. March (1980) described the need to alert public administrators and public employees concerning major problems with pension programs for public sector personnel. March stated, ñPublic administrators for many years have been guilty of failing to understand or neglecting the immense costs and social consequences of pension plans and allowing many deficiencies to creep inò (March, 1980). Also discussed in Marchôs article is a 1978 Congressional Pension Task Force Report, which identified causes of pension problems for state and local pension plans. One of the problems addressed was Social Security. This article suggests that the reason the public pensions are struggling is that they have a higher benefits package than private pensions as a result of not being integrated with Social Security. This suggests that removing the higher benefits package from the public pension and replacing it with Social Security may help the funding of public pensions. March also acknowledges that state and local plans have ñissues regarding deficiencies in vesting, portability, and lack of universal protection under OASDIò (March, 1980).

Zorn (1997) also referenced the larger pension benefits for state and local governments as offsetting for the lack of participation in the Social Security program. Although these plans do not typically include Social Security in their benefit plan formulas, they generally offer higher annual benefit percentages to those not covered as compared to those who are covered by Social Security. This again suggests that participating in Social Security, using it as a means of calculating benefits for the state and local employee pension plans, may provide an alternate means of benefits thus lowering contributions as well as provided benefits (Zorn, 1997).

The effects of the 218 Agreement are extremely important and relevant to the financial position of state and local governments and their employees. Joseph S. Nye Jr. quotes Robert Putnam as saying, ñsimple questions about major real-world events have driven great researché ò (Nye, 2009, p. 253). Even though this is a little known issue, it is a major real-world event that needs appropriate empirical research.

Purpose of this Study

This research identifies some of the factors influencing state and local governmentsô previous policy decisions related to Social Security coverage for their employees. The effects that these decisions had on state and local government budgets and pension plans will also be analyzed.

The relevant factors that influenced these decisions will be analyzed to determine their applicability to current issues in Social Security coverage. Analyzing different periods of major policy adoption related to the 218 Agreement may help identify why state and local governments chose to participate in Social Security or why mandatory Social Security requirements were enacted. Identification and analysis of the factors that contributed to prior decisions related to Social Security will help document and understand policy considerations by states. Further, understanding more about these decisions may facilitate and enhance current and future policy making in areas where both employee and state preferences as well as vast fiscal impacts must be considered.

With the continued efforts of Congress to address the non-covered state and local government workforce, it is important to identify the issues surrounding historical Social Security policy adoption and state and local government responses. Using a policy adoption framework, this research identifies the external political factors, the internal state factors, and the specific policy factors that may have led state and local governments to adopt Social Security coverage for their employees.

The research discusses state policy adoption framework as related to Social Security 218 policy adoption. Then, using the theoretical foundations of federalism, intergovernmental relations, diffusion, and organizational decision making as related to Medicare, Medicaid and Unemployment Insurance as a basis for understanding state responses to federal legislation, the research examines possible factors that contributed to the Social Security policy adoption by state and local governments.

This research provides an exploration of whether certain factors influenced past decisions and how these factors may influence future decisions. It also examines the effect those decisions could have on the fiscal realities of the budgets and pension plans of the state and local governments involved. The factors identified as contributing to past decision making related to Social Security coverage of state and local governments may provide future policy makers the tools necessary to identify factors that should be evaluated when considering future reforms of state and local government Social Security coverage.

Research Questions

The research examines the relationship of the external political factors, internal state and local factors, and specific policy factors of each state during the periods of major Social Security 218 policy changes. The study will address the following questions:

1. What are the factors that influenced state and local governmentsô adoption of Social Security 218 coverage during the major periods of policy reform?
2. What are the current fiscal issues affecting state and local government budgets and pension plans if Social Security coverage is mandated?

This longitudinal case study will report whether these variables influenced these entitiesô participation in Social Security coverage. If these variables explain why these groups chose to be covered or not to be covered, then it may explain the effects that mandatory Social Security could have on the remaining noncovered groups. Whatever these results produce, it is also important to identify the possible financial effects that mandating coverage will have on state and local government budgets, pension plans and their employees.

Overview of Chapters

This introductory chapter highlighted a brief description of Social Security Act and how Section 218 of the act evolved into the current legislation that governs the Social Security coverage for state and local government employees. The chapter also identified the possible financial issues of mandating Social Security. The chapters that follow provide research related to this topic. Chapter 2 provides a review of the literature available on this topic based on state policy adoption framework. Chapter 3 discusses the methodology used to explore the research questions. The chapter will provide details of the data that will be used as well as the hypothesis that will be addressed. Chapter 4 discusses the findings from the research and the analysis of these findings. Chapter 5 provides the current financial effects of mandating Social Security on state and local governments, pension plans, and employees. Chapter 6 summarizes the results of the research and the current issues that may result from mandatory Social Security. This chapter also includes suggestions for future research.

Chapter 2 Literature

Framework of State Policy Decision Making

State and local government policy adoption is the result of a multitude of factors (See Table 2-1). Ringquist and Garand define the most consistent findings with respect to policy changes as internal political factors, external political factors, and policy specific factors. They describe internal political factors has socioeconomic factors, organized interest group influences and political system characteristics. External political factors include the national political environment, national public policy, and interstate influences. Their policy-specific factors include policy relevant knowledge, focusing events related to the policy, and issue redefinition or perception (Ringquist & Garand, 1999). Using Ringquist and Garandǿs policy adoption framework, this research explores external political factors, internal state and local factors and specific policy factors to determine if these factors led state and local governments to make decisions about Social Security policy.

Table 2-1 Framework of State Policy Adoption

State and Local Government Social Security Policy Adoption		
External Political Factors	**Internal State and Local Factors**	**Specific Policy Factors**
• Factors outside the state or local entity that influence the decision making process. • The political activities of the nation as well as other state and local governments could effect whether state and local governments adopt new policies.	• Factors within the state or local entity that influence the decision making process. • The characteristics of the state and local government entities could also effect whether state and local government adopt new policies.	• Factors related to the specific policy in which decisions will be made. • The specific characteristics that are related to the Social Security policy could effect whether a state or local government would adopt the policy.

External political factors are those factors outside the state or local entity that influence the decision making process. External political factors such as the state of the national economy, the activities of other states and the Social Security issues of the given time periods may influence a state or local government to adopt Social Security coverage.

Internal state and local factors are those factors within the state or local entity that influence the decision making process. Internal state and local factors may also influence the decision to adopt Social Security coverage. State political ideology, whether the state is a conservative state or liberal state, may influence these entities to choose to adopt Social Security coverage. The subculture may also be a guiding factor. Identifying whether the state is moralistic, individualist or traditionalistic may help to determine if the government entities within that state would more likely adopt Social Security coverage.

Other factors such as policy specific factors, those factors that are specific to Social Security policy, could influence the decision as well. If the state or local government had an existing old age support program before Social Security the state or local government may already be able to provide this support to its employees. Employee salaries and population as well as the financial stability of the state and local government pension plans may also contribute to the decision to adopt Social Security coverage.

Each of the three groups of factors may have different impacts on policy adoption depending on the activities during the time period analyzed. During the earlier periods when the Section 218 voluntary agreements were being initialized the framework may show more activity in the coverage groups being established. The ability for state and local governments to provide their employees with this coverage after being denied the opportunity may prove to be an enormous jump in coverage. The activities of neighboring states may be the highest during the early years. The effects of pension plan finances and employee characteristic may not be as critical an issue as in the later years because of the need for the benefits provided by Social Security.

In the later periods, pension plan finances and employee characteristics may have a larger impact on whether state and local governments would adopt Social Security coverage. As pension plan funding becomes more unstable and the number of beneficiaries increases at a higher rate than active members, state and local governments may be less inclined to increase benefits for their employees, especially if the increased benefits come at a cost to the employer.

This research will use the policy adoption framework described above to explore state and local choices during time periods related to changing federal Social Security law. Federalism, intergovernmental relations, diffusion, and organizational decision making related to similar policies will be used to provide the basis for empirical research into why state and local governments chose to adopt or not adopt Social Security coverage for their employees.

These foundations will also help identify factors such as national and state characteristics that may have contributed to major legislative changes to the Social Security 218 Agreement discussed in the previous chapter. Several studies on the effects of mandatory Social Security have been discussed, but there is a lack of empirical research related to the Social Security Section 218 Policy adoption by the states. Research related to Medicaid, Medicare, and Unemployment Compensation policy will be evaluated using the framework and theoretical foundations as a basis for gathering data needed to determine the state or local government Social Security policy adoption decisions.

The review of literature will address possible inferences between the State Medicaid, Medicare, and Unemployment Compensation policy adoption, and Social Security 218 policy adoption. Social Security 218 policy adoption is a voluntary program between the state and local governments and the federal government. The Social Security 218 policy is different from most other federal/state policies. Federal/state policies often have a financial characteristic that influences the decision to adopt the policy or the policy is mandated. For the most part the Social Security Section 218 is not mandatory and there is not a financial benefit provided by the federal government. This voluntary policy is offered as a means of providing state and local government employees the same opportunities to have old age, disability, and survivor benefits that are offered to the public without infringing on the Tenth Amendment of the Constitution. Medicare, Medicaid, and Unemployment Insurance have similar qualities that are not mandated. These policies combined with the theoretical foundations discussed above may provide support for identifying the factors that influence state or local governmentsô choices to adopt certain policies.

As noted by Schutt, ñTheory helps us make sense of many interrelated phenomena and predict behavior or attitudes that are likely to occur when certain conditions are metò (Schutt, 2006, p. 69). The purpose of this chapter is to provide an overview of the existing literature to support the theoretical foundations of state policy adoption that are similar to Social Security Section 218. Identifying the factors that influenced state policy adoption for Medicaid, Medicare, and Unemployment Compensation will provide a basis for applying these factors to the State Social Security 218 Agreement research.

History of State and Local Government Social Security Policy

Analyzing different periods of major policy adoption related to the 218 Agreement may help identify why a state chose to participate in Social Security or why mandatory requirements were enacted (See Table 2-2). Determining those factors that contributed to the past decision will help explain the effects that mandatory Social Security may have on the states. In 1950, Congress added Section 218 to the Social Security Act. Title II Section 218 of the Social Security Act, commonly known as the 218 Agreement or Section 218, was established effective January 1, 1951. This section allows voluntary Social Security coverage to government employees (Lortz, September 27, 1994). Each state created a voluntary agreement with the federal government for the agreed upon type of coverage.

Table 2-2 Timeline of Major Social Security Policy Changes

January 1, 1951	Title II Section 218 of the Social Security Act established
January 1, 1955	Section 218 amended to extend voluntary coverage to those covered by an established pension plan
August 1, 1956	Social Security Act amended to allow for divided retirement systems
September 13, 1960	Kerr Mill's bill signed into law. Precursor to Medicaid
July 30, 1965	Social Security Act amended to include Titles XVIII for Medicare and XIX for Medicaid effective July 1, 1966
January 2, 1968	Social Security Amendment of 1967 allowed coverage to firefighters
April 20, 1983	Social Security Amendment of 1983 - Coverage under Section 218 could no longer be terminated
January 1, 1984	Social Security Amendment of 1983 cont'd - Coverage for Federal Employees, Legislative employees, Members of Congress, the President, the Vice President, Federal Judges and Non-profits
April 1, 1986	Public Law 99-772 - Mandatory Medicare for state and local government employees hired after March 31, 1986
July 2, 1991	Mandatory Social Security and Medicare for State and local government employees not covered by a public retirement system or 218 Agreement
March 31, 1995	The Social Security Independence and Program Improvement Act of 1994 extends Social Security and Medicare coverage to police officers and firefighters who participate in public retirement system
November, 2010	Domenici-Rivlin Report recommends coverage to all newly hired state and local government workers
January 3, 2011	The Congressional Research Service recommends mandatory coverage to newly hired state and local government workers after 2020
July 25, 2011	Congressional Research Service discusses advantages and disadvantages to mandatory coverage for new hires
January, 2013	Business Roundtable report suggests mandatory coverage for new hires
May 6, 2013	Joint Committee on Taxation report suggests coverage to newly hired state and local workers after 2020

In 1954, Congress amended Section 218 of the Social Security Act to extend voluntary coverage to include those state and local government employees who were already covered by an established pension plan. This revision became effective January 1, 1955.

The act was further amended on August 1, 1956 to allow for divided retirement systems. The divided retirement system group would allow certain groups of employees within state or local retirement systems to vote on coverage for Social Security (Nuschler, Shelton, & Topoleski, 2011). ñThe amendment makes an exception to the specific exclusion of policemen and firemen who are under a State or local retirement system to allow these employees to be covered under the referendum provisions in five States. Where the policemen and firemen (or both) are in a retirement system with other classes of employees, they may be treated as having a separate retirement systemò (Schottland, 1956, p. 6). The following states became divided vote states during the 1950s and 1960s:

08/01/1956 Florida, Georgia, Hawaii, New York, North Dakota, Pennsylvania, Tennessee, Washington, and Wisconsin.

08/30/1957 California, Connecticut, Minnesota, Rhode Island

08/27/1958 Massachusetts, Vermont

09/13/1960 Texas

06/30/1961 New Mexico

07/23/1964 Nevada

07/20/1965 Alaska

01/02/1968 Illinois

Note: These states later became divided vote retirement states.

12/20/1977 New Jersey

03/02/2004 Kentucky, Louisiana

(Social Security Administration, 2004)

The Kerr Mills Bill was signed into law on September 13, 1960. This law created the Medical Assistance for the Aged (MAA) program. The law gave states power to choose which patients needed medical assistance and the federal government provided matching funds. This program was the precursor to the Medicaid program (Michigan State, 2013).

On July 30, 1965, Public Law 89-97 amended the Social Security Act by adding Titles XVIII for Medicare and XIX for Medicaid. The Medicare and Medicaid law was signed into law effective July 1, 1966. Medicaid funding to the states became available starting January 1, 1966 (Michigan State, 2013; Health Care Financing Review, 2005).

Effective January 2, 1968, the Social Security Amendment of 1967 allowed, ñall States to provide Social Security coverage for firefighters covered under a State or local retirement system when the State certifies that the Social Security coverage would improve the overall protection available to the firefightersò (Special Committee on Aging, 1980, p. 2).

On April 20, 1983, Public Law 98-21 was enacted as the Social Security Amendment of 1983. This law stated that coverage under Social Security Section 218 could no longer be terminated unless the government entity legally dissolved (Internal Revenue Service, 2009). Also included in this amendment was coverage of federal employees, employees of the legislative branch not covered under Civil Service Retirement System, all members of Congress, the President and the Vice President, federal Judges, executive level political appointees of the federal government, and nonprofit organizations, effective January 1, 1984 (Social Security Administration, 1984).

Under Public Law 99-772 all state and local government employees hired after March 31, 1986 are mandatorily required to participate in Medicare coverage (Social Security Administration, 2002; Internal Revenue Service, 2009). Medicare coverage for employees hired before April 1, 1986 could be provided under modification of Social Security Section 218 Agreement (Internal Revenue Service, 2009; Social Security Administration, 2002).

Effective July 2, 1991, state and local government employees not covered by a public retirement system or covered under a Social Security Section 218 Agreement are mandatorily covered for both Social Security and Medicare (Internal Revenue Service, 2009; Social Security Administration, 2002; Nuschler, Shelton, & Topoleski, 2011).

The Social Security Independence and Program Improvement Act of 1994 became effective March 31, 1995. This act allowed all states the option of extending Social Security and Medicare coverage to police officers and firefighters who participate in a public retirement system (Internal Revenue Service, 2009; Social Security Administration, 2002).

There has been little legislation related to Section 218 of the Social Security Act or state and local governmental employeesô Social Security coverage since the 1990s. There have been numerous research projects related to the mandating of Social Security in recent years. These research projects will be discussed here. If history repeats itself, it is time for legislation to be enacted, and these research projects may stand as a basis of support for any legislative changes that may come to pass. Many of these projects come from government-supported programs.

On January 3, 2011, The Congressional Research Service issued *Social Security Reform: Current Issues and Legislation*. The report analyzes the financing and long-range projections for the Social Security trust fund (Nuschler, 2011). This report looks at recommendations from the National Commission on Fiscal Responsibility and Reform to improve the long run fiscal outlook of the Federal Government. Their recommendations include reforming Social Security. The recommendations suggest mandating Social Security coverage for all newly hired state and local government workers after 2020 (Nuschler, 2011).

In November 2010, the Bipartisan Policy Center issued the Domenici-Rivlin Debt Reduction Task Force Plan 2.0. This task force was made up of 19 former elected officials and experienced citizens. Senator Pete Domenici and Dr. Alice Rivlin co chaired the task force whose goals were to address the explosion of U.S. debt. Social Security was addressed in the report with an effort to pass a balanced package of policies that would achieve long-term solvency for Social Security (Bipartisan Policy Center, 2011). Part of this package included coverage for newly hired state and local government workers previously exempt from coverage (Bipartisan Policy Center, 2011).

On July 25, 2011, The Congressional Research Service issued ñSocial Security: Mandatory Coverage of New State and Local Government Employees.ò This report describes current law and historical background as well as discusses the potential advantages and disadvantages of mandating Social Security coverage for newly hired state and local government employees (Nuschler, Shelton, & Topoleski, 2011).

In January 2013, the Business Roundtable issued the ñSocial Security Medicare Modernization Proposalsò report (Business Roundtable, January 2013). The group suggested several reform measures to stabilize the financial condition of the Social Security Old Age, Survivor, and Disability Insurance (OASDI) program. One such measure is to include newly hired state and local government workers who are currently exempt from the system (Business Roundtable, January 2013).

On May 6, 2013, the Joint Committee on Taxation released the ñReport to the House Committee on Ways and Means on Present Law and Suggestions for Reform Submitted to the Tax Reform Working Groups.ò This report provided the 11 Ways and Means Committee Tax Reform Working Groups with a review of current law and suggested reform and commentary. This document also suggests expanding Social Security coverage to newly hired State and local workers after 2020 (Joint Committee on Taxation, May 6, 2013).

The Social Security Act has been reformed multiple times. Many of the reforms involved state and local coverage issues. State and local coverage issues have often been discussed as a means of expanding the Social Security system. It is important to identify the factors that have led state and local governments to make choices about Social Security coverage adoption before implementing policy mandates related to this coverage. Based on experiences and recent research the idea of mandatory Social Security for all state and local governments could be raised again in the near future. This research may provide guidance to policy decision makers to help determine the effects of such decisions.

External Political Factors

The theoretical foundations of federalism, intergovernmental relations, and diffusion guide state and local governments in their policy-making decisions. The sharing of authoritative power of federalism, the cooperation of government with intergovernmental relations and the policy adoption of neighboring states support the external political factors related to Social Security policy adoption for state and local governments. These external factors are factors that are outside of the state and local government but could influence the policy decision-making process. Many of these factors are national issues such as the state of the economy of the nation. Intergovernmental relations between the federal government and the state and local governments also provide a basis for these factors. Using lessons learned from other state and local governmentsô adoption of a particular federal policy could provide feedback for a state or local government to use in their policy adoption decision-making process. Using these foundations and their effect on policy adoption related to Medicare, Medicaid and Unemployment Compensation will provide supporting literature to identify factors influencing Social Security 218 policy adoption.

Federalism. Federalism refers to the authoritative relationship shared between national and regional governments. The Tenth Amendment to the U.S. Constitution is the bases for federalism. The Tenth Amendment states:

> *The powers not delegated to the United States by the Constitution, nor prohibited by it to the states, are reserved to the states respectively, or to the people* (U.S. Constitution, 1791).

In this research, federalism, as provided by the Tenth Amendment, applies to the relationships between the United States federal government and the state and local governments within the United States.

Woodrow Wilson (1887) identified the relationship of the public administrator in the coordination of the federalist system as having the following duty:

> *[T]o supply the best possible life to a federal organization, to systems within systems; to make town, city, county, state, and federal governments live with a like strength and an equally assured healthfulness, keeping each unquestionably its own master and yet making all interdependent and cooperative, combining independence with mutual helpfulness. The task is great and important enough to attract the best minds…. This is a tendency towards the American type –of governments joined with governments for the pursuit of common purposes, in honorary equality and honorable subordination.* (Wilson, 1887, pp. Section III, para. 9 & 12)

Gerston (2007) identifies federalism as ñthe ways that various governments simultaneously influence, depend upon, and push away from each otherò (Gerston, 2007, p. 5). Federalism is the coordination of the federal and state governments in enacting policy adoption.

American federalism, the coordination of authority between the United States national government and the individual states within the United States, gives states the power to address local issues without the intervention of the federal government. The states are able to respond to local values and differences that affect their citizenry. There is some overlap between the state and the national government as seen in Social Security (Patterson, 2005). Social Security was a national tax measure used to support the aging citizenry. However, the Tenth Amendment prevents the national government from enforcing a tax on the state and local governments as employers. The state and local governments, as employers, had to agree voluntarily to the taxation by the federal government thus allowing their employees to participate in Social Security. Identifying the federalism system and how it relates to the policy adoption of state and local governments, provides support for why state and local governments may have chosen Social Security coverage for their employees.

Periods of Federalism. According to the U.S. Department of State, federalism has passed through four stages; the dual federalism period from 1789-1901, the cooperative federalism period from 1901-1960, the creative federalism period from 1960-1968 and the contemporary federalism period from 1970-present. The dual federalism period had two phases. Phase one lasted from 1789-1865. This period was characterized by the idea that the national and state governments were partners with separate and distinct authorities. There was little collaboration between the governments during this period. Tension over the nature of the union and state sovereignty was very high. The second phase was from 1865-1901. This phase saw continued states rights issues as the national government began increasing its presence in areas that had previously been reserved to the states. Issues related to interstate commerce, business and the economy, and civil rights began to take the forefront of the division between national and statesô rights. Even though Social Security had not come to fruition at this point, the stage was already set for the statesô rights issues (U.S. Department of State, 1997).

The period from 1901-1960 was marked as the cooperative federalism period. During this time, there was greater cooperation and collaboration between the national and state governments (Boyd, 1997). This was a period when several social policies, including Social Security were enacted. This policy not only provided directly for the implementation of a standard pension and disability policy for the nation but also provided for social health policies such as Medicaid and Medicare and unemployment assistance with the Unemployment Insurance program.

The creative federalism period was the period from 1960 - 1968. Lyndon Johnson and a heavily Democratic Congress played a heavy role in this period of expansion of intergovernmental activities and federal commitments to address the ñproblems of racial discrimination, poverty, and urban and rural developmentò (O'Toole Jr., 2005, p. 134). As a result, federal grants-in-aid tripled during this period (O'Toole Jr., 2005). The availability of grants-in-aid and the increased regulations shifted more power to the national government. State and local governments served as agents to implement national policies. The Medicaid and Medicare programs were developed during this time period and expanded the role of Social Security to the states. Old-age assistance and healthcare had previously been the responsibility of the state and local governments. Now the national government was easing in on taking over responsibility, treading on the edge of the Tenth Amendment.

The contemporary federalism period began in 1970 and continues today. This period is characteristic of unfunded federal mandates, increased federal regulations, and continued concerns over the extent of power taken over by the national government (U.S. Department of State, 1997). This time period has seen many instances of changes with the Social Security coverage of state and local government employees. Mandatory Social Security for those employees not covered by a retirement system and mandatory Medicare both came about during this period. The increased discussions of mandatory Social Security for all state and local government employees have been prominent during this period.

Tenth Amendment Issues. From 1933-1936 Roosevelt and the Democratic Congress enacted several legislative changes including the enactment of the Social Security Act to combat the downturn in the economic stability of the nation. Many of these changes were challenged and ruled as unconstitutional by the Supreme Court due to the Tenth Amendment to the U.S. Constitution. The Tenth Amendment gave the states and/or the people the power to regulate activities that were not specifically given to the federal government to regulate. However, the U.S. Constitution did provide some conflicting information when it authorized Congress to provide for general welfare and to make all laws that are necessary and proper for the administration of its powers. Article 1 Section 8 of the U.S. Constitution contains the ñGeneral Welfareò and ñNecessary and Properò clauses. These clauses have been interpreted differently at different times and by different people. These parts of the Constitution are used throughout the history of policy adoption to justify certain legislative events that bordered on the rights of states versus federal initiatives to support general welfare and/or the necessary and proper administration of certain laws (O'Toole Jr., 2005).

Policies such as the Old Age Security portion of the Social Security Act were seen as addressing the general welfare as provided in Article I, Section 8 of the US Constitution and did not infringe on the state through taxation of individuals and companies (Gerston, 2007). In addition, by excluding state and local government employers, additional issues of violations of the Tenth Amendment were mitigated.

The Social Security Act had several components that challenged the Tenth Amendment of the Constitution. The Old Age Security portion of the Social Security Act was not the only portion of the policy that was challenged as exceeding the powers of the federal government. The federal-state system of Unemployment Insurance (UI) was also a component of the Social Security Act. Congress feared the courts might find a federal unemployment insurance program unconstitutional; therefore, Congress created the federal-state system of unemployment insurance. Many believed that the unemployment insurance crisis was a national issue rather than a state issue thus leading to the national government having the right under Article I Section 8 to mitigate the situation (O'Leary & Straits, 2004).

The Unemployment Insurance Program was created with the implementation of Titles III and IX of the Social Security Act. The goals of the program were as follows: ñ(1) to provide temporary partial wage replacement during involuntary unemployment, (2) to prevent dispersal of employersô workforce, (3) to promote rapid return to work, (4) to limit business downturns by maintaining aggregate purchasing power, and (5) to encourage stabilization of employment in enterprises through experience ratingsò (O'Leary & Straits, 2004, p. 7)

The federal-state unemployment system did not rely on grants like other public assistance programs. This incentive structure involved a uniform tax imposed on the payrolls within the state with 90% of the revenue granted to the states for operating approved unemployment insurance programs. The remaining 10% was granted to states for administration of the program and used as loans when liquidity problems arose (O'Leary & Straits, 2004). The Supreme Court found in several cases, including Carmichael v. Southern Coal & Coke Co. and Gulf States Paper, 301 U.S. 495 (1937), that the unemployment law included in the Social Security Act was constitutional because:

> (i) the states enacting conforming UI laws reaped a federal tax advantage for employers,
> (ii) states did not act under duress, but were free to choose this advantage, and
> (iii) there was general hardship during the Great Depression and a need to respond since 1929.
> (O'Leary & Straits, 2004)

The economic instability of the United States, during the Great Depression, led the federal government to enact legislation that would provide assistance to a struggling economy. The states also adopted these legislative events often through voluntary agreements in the Social Security Act including the Unemployment Insurance compensation program and the Section 218 state and local government coverage. This research suggests that, during periods of economic instability, governments react to the instability with the passage and adoption of legislation to combat issues such as unemployment and pension deficiencies.

Fiscal Federalism. Congress often asserted national power over state power in the form of fiscal federalism. Congress has enforced national policy using a financial carrot ï and ï stick approach. This tool has allowed the federal government to leverage national policies and to set national priorities (the sticks) by dangling financial support (the carrots) to the states. Payments from the national government to the states are grants-in-aid and a means of enticing state governments to participate in objectives of the federal government. These grants-in-aid are classified as categorical grants and block grants. Categorical grants are given to the state by the federal government with specific conditions attached. Block grants are less specific and usually are based on population or some other socio-economic factor. These block grants can be used to support a variety of activities (Gerston, 2007). As the federal role in providing these grants expanded, the role of state governments expanded as well. The state governments permitted the growth of the federal programs without increases in the federal government workforce or creation of new agencies (Kettl, 2002).

Medicaid is an example of a grant-in-aid program that supports healthcare. Not only does Medicaid provide acute care for the very poor, it also benefits people at higher incomes who have exhausted their financial resources, and the mentally and physically disabled. The aged and disabled makeup less than one-third of the total Medicaid population but represent three times the spending for acute care of the very poor (Nathan, 2013). This democratic form of federalism provides healthcare access to the citizens of the states at a level that each state feels will best meet the needs of the state population (Kettl, 2002).

Nathan describes how the federalist system has allowed the states to help develop policy, especially noting the Medicaid system. This was also seen in the conservative period of the Reagan administration of the 1980s (Nathan, 2013). Reagan ñargued for a reduction in the role of the federal government in domestic programs in general, and for social programs in particular. He has sought to enhance the role of statesé ò (Nathan & Doolittle, 2008, p. 97). ñStates reshaped programs to reflect state priorities, increased their funding of programs in areas in which the federal governments had become less active, and assumed more control over the activities of local governments and nonprofitsò (Nathan, 2013, p. 1460). Both the federal and state political cultures and ideology may have an influence on whether a state would adopt certain policies. The states were given explicit power to adjust national goals to meet their local conditions (Kettl, 2002).

The Medicaid program was structured to give states the power to set benefit levels and how these benefits are defined. The states have minimum requirements to support the federal initiatives but may expand to include higher standards and benefits. As noted by Kettl, ñdifferent states add different supplements to fund different levels of service. No two states, in fact, have identical versions of the same federal entitlement programò for Medicaid (Kettl, 2002, p. 57).

This concept has allowed the states to adopt the appropriate level of coverage for their citizens as long as it meets the minimum requirements, much like that of the Social Security 218 Agreement. Even though the 218 Agreement does not provide for funding to support the pension programs of the state and local governments, the state and local governments must provide a pension plan that is a qualifying FICA-replacement plan. If it is a defined benefit plan then it must provide comparable benefits to Social Security. If it is a defined contribution then the only requirement is that a minimum contribution level must be 7.5% by the employee, employer or both combined. In many ways, the two programs mimic one another. Federal regulations provide that a state or local government employee cannot be left without an appropriate pension system guaranteeing the protection of state and local government workers. The amount of federal control and minimum requirements of the program as well as the demographic characteristics of the state population appear to influence the level of state policy adoption. Policy adoption through these grant-in-aid programs was the mechanism of intergovernmental cooperation.

Intergovernmental Relations. Intergovernmental relations over public policy involving federal and state governments are a source of contention over the responsibilities of each group. Critics of federal grants believed that the grants were ñcoercive inducements and violated the notion of separate spheresò of the national and state governments (Stillman-II, 2005). In 1923, the Supreme Court asserted that since these grants were voluntary there was no violation of the separation of functions between the state and federal government (Stillman-II, 2005). Several legislative events provide literature related to intergovernmental relations between the state and federal governments and the effects that these relations have had on the adoption and implementation of public policy. These events will help explain why a state would chose to adopt a policy while other states do not.

Wright identified intergovernmental relations (IGR) as seven different phases. The first phase, pre-1930s, was characterized as the conflict phase. Determining the limits of power across federal, state, and local jurisdictions caused a strain to IGR (Wright, 1974). State and local governments were determining their place in the federalism structure.

Similar to the cooperative federalism period from 1901-1960, the second phase of IGR was the cooperation phase and was prevalent from 1930s-1950s. Complementary and supportive relationships were prominent and had high political significance during this period. Widespread economic distress and international threats brought the country closer together. The need for fiscal stability was the major mechanism for IGR during this period (Wright, 1974).

Section 218 and the Unemployment Insurance portion of the Social Security Act is an example of how federal, state, and local governments cooperated in providing both the opportunity for pensions and unemployment coverage to government employees. Many state and local governments did not have the financial resources to provide adequate pension benefits or unemployment benefits to their employees. Voluntary agreements between the federal and state governments allowed Social Security coverage and Unemployment Insurance for these employees. The reason for this policy adoption appears to be fiscal.

The third intergovernmental phase was the concentrated period of 1940s-1960s. Program professionals in public service were on the rise and this rise led to enhanced service standards. This rise in professionals was guided by increased capital expenditures in response to the middle class. The middle class realization of the capabilities of the government to provide positive and program specific actions led to the concentration period. The reorganization of Congress in 1946 created and stabilized standing committees with program emphasis. These committees were comprised of program professionals that were able to tap into the fiscal resources to support their particular program, which often supported the middle class (Wright, 1974). Many of the major reforms to Social Security were adopted during this period. Federal and state governments used program professionals to identify programs that needed change or expansion.

The creative period from 1950s-1960s was the fourth phase of IGR. This period also known as the Creative Federalism decade was marked by several initiatives. The mechanisms for these initiatives are program planning, project grants, and popular participation. There were about 40 major programs distributing $4.9 billion enacted prior to 1958. By 1969, that number grew to 160 major programs distributing $23.9 billion. Most of these grants had planning requirements attached to them (Wright, 1974).

Grant programs were heavily concentrated throughout the creative period. This period brought about the term ñThe Great Societyò with views of our entire government system as a single system. This single system would focus attention on disadvantaged citizens through anti-poverty programs and educational funding (Wright, 1974). The Great Society brought about such important legislation as Medicare (Title 18 of the Social Security Act) and Medicaid (Title 19 of the Social Security Act) (Marx, 2013). Medicare was financed through employer and employee taxes to make health care more affordable to older Americans. Similar to the pension portion of the Social Security Act, state and local governments were allowed to participate voluntarily in this program for their employees (Bovbjerg, Wiener, & Houseman, July 2003). State and local governments could choose to participate in this program if their pension system did not contain a provision for health care insurance.

For Medicaid, states were given matching grants to help the poor of their states with health care needs such as emergency care and certain basic health care services as long as they operated within the federal rules. The states were allowed to determine eligibility requirements and levels of health care services (Marx, 2013). Since the states already had to care for their poor citizens, the financial support of the federal government gave the states the incentive needed to adopt the policy.

The fifth phase identified is the competitive phase from 1960s-1970s. There is strong tension between policy generalists and program professionals, as well as between the different program areas. These groups fight for the resources for their particular cause. Senator Edmund Muskie ï Democrat, Maine stated: ñThe picture, then, is one of too much tension and conflict rather than coordination and cooperation all along the line of administration ï from top Federal policymakers and administrators to the state and local professional administrators and elected officialsò (Wright, 1974, p. 14).

The National Health Planning and Resources Development Act of 1974 is an example of a legislative event that brought about this tension. This act ñrequired states to adopt federally approved health planning laws or lose federal funds for public healthò (Bovbjerg, Wiener, & Houseman, July 2003, p. 27). The U.S. Supreme Court in North Carolina v. Califano 445 F. Supp 532 (1977) upheld this federal power, which could even override a stateôs constitution (Bovbjerg, Wiener, & Houseman, July 2003, p. 27). Again, states chose to adopt the federal legislation or risk losing valuable federal funds.

The calculative period of intergovernmental relations, from 1970s ï 1980s saw an increase in the cost benefit analysis of getting a federal grant. Increased attention was given to grant formulas and how they were calculated. This was seen in the Community Development Block Grant (CDBG) program. The factors in the formula were changed from ñhousing overcrowdingò to ñage of housingò. This change in the housing formula favored the older industrial cities in the Northeast and north central states. The newer, younger, and smaller cities of the southern and western states were not well represented since they had newer homes (Wright, 1988).

This period also saw a decline in the existence of federalism in the historic and legal sense. State and local governments had the appearance of making policy choices but the choice was whether to participate in federal programs. Once that choice was made, the federal government specified the rules of the game for participating in the federal program (Wright, 1988).

The final phase of intergovernmental relations is the contractive phase from 1980s ï 1990s. Beginning in the 1980s, federal aid began to decline when measured as a percentage of Gross Domestic Product (GDP) or as a percentage of state and local revenues. Court decisions and congressional statutes also began to constrict, or contract, the rights of state and local governments.

During this period, several federal court decisions, including Garcia v. San Antonio Metro Transit Authority, 469 U.S. 528 (1985), intervened on the policy actions of the states. This case applied the federal Fair Labor Standards Act (FLSA) to a municipal government (Garcia v. San Antonio Metropolitan Transit Authority, 1985). The passage of mandatory Medicare also took part during this period. The federal government mandated that all newly hired state and local government employees would be covered by the Medicare program (Social Security Administration, 2009). Federal policy was now heavily enforced on state and local governments.

After the great depression, Federal legislation began focusing on IGR relating to issues such as unemployment policies, job training, and job mobility. ñThe federal-state system of unemployment insurance (UI) was established in the United States by the Social Security Act of 1935. Title III of the Act established federal grants to the states to perform administrative functions for UI, and Title IX established the federal unemployment tax and related provisionsò (O'Leary & Straits, 2004, p. 7). This system allowed for financing the administration of the program through rebates to the states based on proper administration. This was a new model for intergovernmental relations using incentives. ñFederal grants to the states for UI administration are done based on work load factors such as the number of UI claims, appeals, and covered employersò (O'Leary & Straits, 2004, p. 10). The federal government tries to conserve funds while the state believes they are entitled to the funds. This is typical of the intergovernmental system of decision making where each of the participants in the system are in partial conflict yet neither can succeed without acting unilaterally (O'Toole Jr., 2005).

OöLeary & Straits referenced Davidson and Martinös (1966) standoff between the federal and state governments. This standoff was viewed as a classic principal-agent problem. The federal government is the principal seeking to administer an Unemployment Insurance program through its agents, the state employment agencies. (O'Leary & Straits, 2004) The principal-agent theory suggests that higher-level officials (the federal government) initiate contracts (the Unemployment Insurance program) to be implemented by subordinates (the state employment security agencies). The agents are responsible to the principals or top-level officials not because they are ordered to but because of the contract negotiation, which they agreed upon (Kettl, 2002). According to Kettl (2002), this theory provides a ñmore elegant and theoretically powerful solution to the problems with which traditional public administration had been struggling for nearly a centuryò (Kettl, 2002, p. 86)

> *Davidson and Martin argue that to encourage high quality service, efficient low-cost administration, and continuous quality improvement, the administrative funding mechanism should (1) be based on the quality of service as measured through a simple monitoring system operated by the federal partner to assess state practice, and (2) permit states to retain unspent financial grants."* (O'Leary & Straits, 2004, p. 10)

The contract that supports the principal-agent agreement must be written such that the efficient and effective operations of the agreement are identified.

By the 1970s, the design, implementation and evaluation of programs transferred from the federal government to state and local government. This process, known as decentralization or decategorization, allowed the state or local government to determine how the federal appropriations are administered. In 1998, the Workforce Investment Act (WIA) gave the states even more discretion than before. Business-led Workforce Investment Boards (WIB) appointed by local elected officials established one-stop career centers that provide service to individuals seeking employment regardless of income or employment status (O'Leary & Straits, 2004).

Similar to the Social Security 218 Agreement, states are free to choose whether their employees participate in unemployment insurance. If the state chooses to participate, then they receive the 90% rebate if they adhere to federal laws. If they do not choose to participate, then they use state funds for the program and do not receive the rebate. The rebate is what encouraged the states to adopt this policy. States also were more willing to accept the WIA because of the devolution from federal to state control. The WIBôs gave the states an ability to administer the program according to the needs of the population. Again, population demographic needs and flexibility of state control led to policy adoption by the states.

Diffusion. Walker defines innovation as a program or policy, new to the states adopting it, no matter the age of the program or how many other states have adopted the program (Walker, 1969; Berry & Berry, 1990). When a state policy innovation is shown to be feasible, this gives other states the confidence that they can develop similar policies. The policy innovation of other states provides a state with the knowledge and confidence to adopting similar policies (Nathan, 2013).

Any innovation suggested by the executive branch will become law only if the legislature passes the bill. If the legislature identifies potential problems, the legislators may emulate the policy of another state not because of the executive branch pressure but because of another state providing a timely model that solves the political problem at hand (Eyeston, 1977).

The adoption of this new or changed policy is referred to as diffusion. Barbara Wejnert defines diffusion as ñthe spread of a practice within a social system where the spread denotes flow or movement from a source to an adopter typically via communication, role modeling, and/or coercionò (Wejnert, 2012, p. 55). Eyestone (1977) suggests that a stateøs adoption of policy is most likely dependent on three factors: intrinsic properties of the policy, a stateøs politics, and emulative effects. Changes in state or national politics may influence the ease or difficulty of a particular policy adoption. States may choose to adopt policy because of federal initiatives that provide positive incentives for adoption of the policy. States may want to review another stateøs adoption of the policy before making that choice (Eyeston, 1977).

The diffusion of Medicaid policy may come from the flexibility given to the states by the federal government to determine benefit levels and how benefits are defined. This flexibility allows the state to determine how the Medicaid funds are spent. New York uses the federal matching funds for existing health care programs. The flexibility of the use of funds gave the states the incentive to adopt the policies provided for by the federal government (Nathan, 2013).

The main purpose of Walkerøs research was to identify why some states are more innovative than other states. He used an innovation score based on the analysis of 88 different programs enacted by at least twenty state legislatures prior to 1965. He identified the length of time between the first and last legislative enactment of a program and then gave each state a score based on the percentage of time that passed between the first state enactment and that particular stateøs enactment (Walker, 1969).

Once the innovation scores were identified, Walker analyzed whether certain state demographic factors correlated to the innovativeness of the adoption of policy. In his research, he found that larger, wealthier states adopt new programs somewhat faster than smaller, poorer states. He also looked at political factors. During the 1900-1929 period, there was no correlation between legislative apportionment and innovation. However, in the 1930-1966 period, there was a correlation. Walkerøs explanation for the change was that the legislatures became less representative of the urban population after 1930. In his research, Walker was attempting to develop the following:

> *…an approach to governmental policy making which will serve as guide in the analysis of all legislative decisions…which will lead as well to a better understanding of decisions made by bureaucrats, political executives and other governmental officials….[he] will search for the criteria employed by legislators and administrators in deciding whether a proposal is worthy of consideration in the first place. This search rests on the belief that whoever the decision maker may be…a set of general criteria exists in every state which establishes broad guidelines for policy making.* (Walker, 1969, p. 888)

Walker concluded that a continuum does exist between those states that innovate quickly and those who are reluctant to innovate. He also identified the existence of regional clusters among states that were identified through factor analysis based on the pattern of adoption over time. This analysis provided an explanation of regional groupings that may help explain the innovation. This part of Walkerøs research suggests that states may adopt policy based on the region that they are identified with and decision makers will adopt new policies when similar states have already adopted the policy (Walker, 1969).

Mooney (2001) analyzed regional effects on policy diffusion. He identified diffusion theory as a social learning process where information is acquired, interpreted, and acted upon. He suggested that regional diffusion is not constant and positive as other researchers once believed. He believes that the regional effect could change because of increased information that was attained through the social learning process possibly from neighboring states. As neighboring states adopt the policy, information becomes available that may identify the problems with the policy. The neighboring states that have not adopted the policy may choose not to adopt the policy because of the identification of the problems. Therefore, there is not a diffusion of the policy because of the social learning by the neighboring state (Mooney, 2001).

Mooney used Berry and Berry's independent variables of state government fiscal health, proximity to an election year, state per capita personal income and the percentage of fundamentalist Protestants in a state's population to help identify the regional effects of policy adoption on state entities (Mooney, 2001; Berry & Berry, 1990). Mooney found that regional effect could change over the course of the diffusion because of changes in available information that occurs with social learning. Having a neighbor recently adopt a policy increases the available information about the policy, but as policy diffuses, additional information, including negative information, becomes available which may lead neighboring states to not adopt the policy.

External political factors are a significant influence in the policy adoption process for state and local governments. As seen in the policy adoption process of Medicare, Medicaid and Unemployment, the coordination of efforts between the different levels of governments is important to policy adoption. The identification of the external political factors along with the internal state factors and specific policy factors will help determine the policy adoption process for state and local governments.

Internal State Factors

Internal state factors also influence state and local governments in their policy-making decisions. Organizational decision-making, political ideology and political subculture of a state may help identify why a state or local government adopts certain policies. Identifying a state as liberal or conservative as well as determining whether it is moralistic, individualistic or traditionalistic may provide an explanation for what internal state factors influence state or local governments to adopt Social Security coverage for their employees.

Organizational Decision-making. Organizational decision-making is the ñconcept of the decision maker struggling to choose among complex alternatives and constantly receiving much more information concerning his environment than he is able to digest and evaluateò (Walker, 1969, p. 889). Walker (1969) used Simonôs (1957) premise of ñsatisficingò to identify the decision maker (Simon, 1957). Walker summarized Simonôs decision maker as an individual who cannot find the best possible solution given the limits of rationality so the individual chooses a satisfactory course of action based on what that individual believes is the best alternative (Simon, 1957; Walker, 1969)

Long identifies with Simon that administrative rationality depends on uniform values among the decision makers (Long N. E., 2005). Walker suggests that the decision maker creates a simplified world with few variables. The decision maker looks for cues to help make policy decisions. These cues often come from organizationôs goals and the knowledge and availability of alternatives to the policy at hand. The rule of thumb for organizational decision makers might be as follows: ñlook for an analogy between the situation you are dealing with and some other situation, perhaps in some other state, where the problem has been successfully resolvedò (Walker, 1969, p. 889).

Lesson Drawing. Lesson-drawing can also be used to support state policy adoption. Richard Rose, in *Lesson-Drawing in Public Policy*, defines lesson-drawing as being ñconcerned with whether programs are fungible, that is, capable of being put into effect in more than one placeò (Rose, 1993, p. 21). According to Rose ña lesson can be defined as a program for action based on a program or programs undertaken in another city, state, or nation, or by the same organization in its own pastò (Rose, 1993, p. 21). These programs include laws and regulations, administrative agencies, appropriated funds, delivery of the service and rules for participation. Lesson-drawing is different from innovation in that innovation is related only to new policy. Lesson-drawing is more about diffusion of policy that was an innovation at one time. Lesson-drawing, much like diffusion with the exception that diffusion is concerned with timing, often focuses on geographical relations, resources or monetary availability, and government attributes or ideological similarities. Rose identifies lesson-drawing in four distinct stages:

1. Search for information about programs that have been satisfactorily adopted.
2. Create a cause and effect model of how programs deal with a specific problems.
3. Create a new program for action based on what others have learned.
4. Estimate the consequence of adopting the program and what will happen if the lesson is applied (Rose, 1993).

By identifying other states that adopted Social Security for their employees, identifying the cause and effect model of adopting Social Security, creating a plan for the adoption, and identifying the consequences of Social Security policy adoption, a state may be able to draw a lesson on what would occur in their respective state if the policy adoption took place.

The organizational decision making and lessons drawn from other states can also be compared to those states that are similar in structure. Looking at states with similar political subculture and political ideology may help provide information on why some states adopt policies and other do not.

Political Subculture. Political scientist Daniel Elazar believed that political culture among Americans was one of the reasons that states enacted different policies to deal with similar problems. He defined political culture as ñthe particular pattern of orientation to political action in which each political system is imbeddedò (Elazar, 1984, p. 109; Riley, 2013, p. 1). He further divided political culture into three different political subcultures to help explain these patterns: individualistic, moralistic, and traditionalistic (Elazar, 1984; Riley, 2013; Rausch, 2013).

Gray (2007) interpreted Elazarôs argument that ñthe values of each subculture were brought to this country by the early settlers and spread unevenly across the country as various ethnic and religious groups moved westwardé .Todayôs differences, according to Elazar, can be traced to the bedrock political values and perspectives of the earliest settlersé .More than a hundred studies have tested his predictions about political and policy differences among the three subcultures and found some support for themò (Gray, 2007, pp. 20-21).

The individualistic subculture sees governments as practical and limited in the need for intervention in private activities. Private concerns are considered more important than public concerns. These concerns help keep the market functioning. Politicians are self-interested and seek to gain office rather than deal with issues. This culture is more prominent in the Middle-Atlantic and Western states as seen in Figure 2-1 (Rausch, 2013; Riley, 2013; Elazar, 1984).

The moralistic subculture is the opposite of individualistic. Moralistic subculture sees governments as a positive force, helping to create a great society. Serving the community is the most important aspect above loyalty and friendship. Politicians run for office to help advance issues. It is a citizenộs duty to participate in politics. Figure 2-2 shows that the moralistic subculture is more prominent in the Upper New England, the Upper Middle West and portions of the west (Rausch, 2013; Riley, 2013; Elazar, 1984)

The traditionalistic subculture is between individualistic and moralistic. Traditionalistic subculture sees governments as a positive role in the community that is limited to securing social order and is custodial rather than innovative. Politicians are the elite and ordinary citizens are not expected to participate in politics. Government maintains social and economic hierarchy. As seen in Figure 2-3, the Southern states typically identify as the traditionalist subculture (Rausch, 2013; Riley, 2013; Elazar, 1984)

Elazar (1984) created the following maps to identify the dominant and mixed subcultures.

Figure 2-1 Individual Political Culture

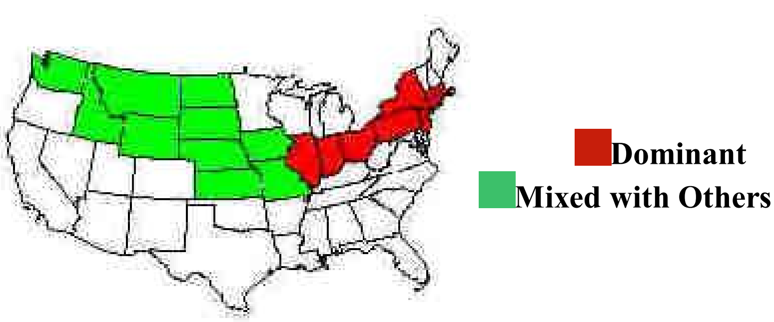


Figure 2-2 Moral Political Culture

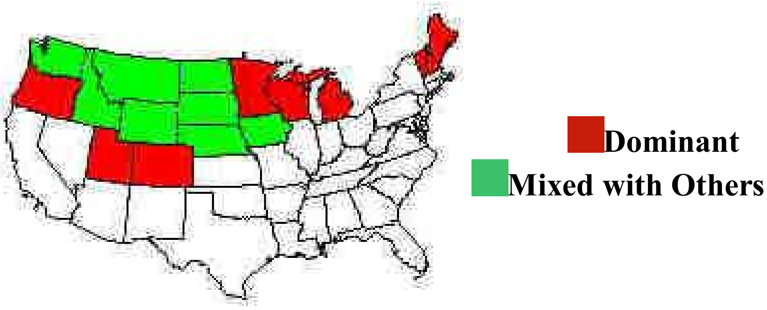
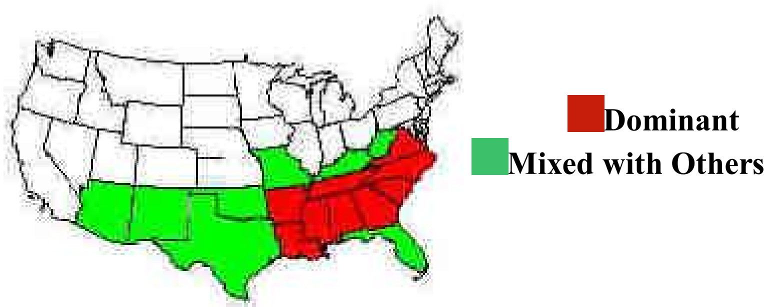


Figure 2-3 Traditional Political Culture



Elazarôs maps identify each as a dominant or mixed subculture. The states identified as dominant should follow the pattern related to that subculture.

Charles Johnson examined Elazarôs formulas to determine their validity. He found that his ñdiscriminant analysis grouping the states according to the three cultural indices produced results quite congruent with the classification set forth by Elazarò (Johnson, 1976, p. 507). He also found that political culture is related to the political characteristics and decisions of the state and when explaining various attributes of the stateôs political systems that the political culture should be taken into account. Johnson stated the following:

> *Much of the literature in this area of study has acknowledged the direct and independent effect of economic variables on the political system. In much the same way, political culture variables should be so considered. An operational measure for political culture along the lines of Elazar's theory has been provided so that political culture may take the form of either a direct independent variable,*

> *an intervening variable, or a control variable depending, of course, on the theory and hypotheses.* (Johnson, 1976, p. 507)

Political Ideology. Political ideology influences whether a state will initiate new public policy. Berry et al. (1998) offer two measures of ideology for the American states. Their research quantified state citizen ideology and state government ideology for the years 1960-1993. In 2010 Berry et al. (2010) updated the research to include years through 2006 in Measuring Citizen and Government Ideology in the U.S. States: A Re-appraisal.

> *Their indicator of citizen ideology measures the average location of the active electorate in each state on a liberal-conservative continuum. Their government ideology indicator measures the average location of the elected officials in each state on the same continuum….These ideology indicators have proven useful in analyzing the impact of public opinion or the policy preferences of elected officials on a wide variety of state policy outputs….* (Berry, Fording, Ringquist, Hanson, & Klarner, 2010, p. 117)

Gray (2007) confirms the use of political ideology as a means of predicting the outcome of policy adoption among states. To see the policy differences among states the article suggests using a systematic method to rank states based on quantitative policy indicators in a manner similar to the Berry et al. research (Gray, 2007).

Organizational decision making, lesson-drawing, political subculture and political ideology are all internal state factors that may lead a state or local government to adopt a certain policy. There are also specific policy related factors that may contribute to the decision making process.

Specific Policy Factors

Demographic and financial factors can be specific to certain policies and influence governments in their policy-making decisions. In state Social Security policy adoption the pension plan finances could play a role in the adoption of the policy. Identifying the specific individuals affected as well as the institutions within the government entity may provide an explanation for what specific policy factors influence state or local governments to adopt Social Security coverage for their employees.

Pension Plan Factors. Nuschler, Shelton and Topoleski (2011) analyzed the advantages and disadvantages of mandating Social Security on state and local governments. The research suggested that with the introduction of Social Security, state and local governments would possibly decrease contributions to public pension to support the increase in contributions to Social Security. The impact to plans with sufficient assets is thought to be minimal but it could add a significant financial strain to underfunded pension plans. If the state or local government created a new plan for the newly covered Social Security employees then the previous underfunded plan would no longer bring in the necessary contributions to provide for the beneficiary payments. The funding to make up this difference would have to come from either the state and local government budgets or through additional contributions from the employees.

This information suggests that pension plan funding may be used to support why a state or local government may adopt Social Security for their uncovered employees. State and local governments with pension plans that do not have adequate contributions and/or assets may not be able to support the adoption of Social Security coverage for their employees.

Socio-economic Factors. Hofferbert (1966) analyzed the importance of emulation and competition between states in the development of policy adoption much like Walkerøs research (Hofferbert, 1966; Walker, 1969). Hofferbert referred to the variables in his research as ecological variables. These variables are often referred to as socio-economic variables. In his research, Hofferbert looked at these ecological/socio-economic variables to determine if there was a correlation between these variables and policy adoption in the states over time. His findings were:

> *The states are becoming increasingly similar to one another along both ecological and policy dimensions. This narrowing of the gap between the states serves to lessen the pressures in certain more or less basic policy areas for those states which have been trailing the field in the provision of "expected" governmental services. The lessening of pressure leads to an increase in latitude for choice and innovation by policy makers.* (Hofferbert, 1966, p. 465)

He suggests that the diffusion of policies among the states increases as time evolves because states are becoming more diverse in their makeup while more similar in their socio-economic makeup. The ñecologicalò variables he identified in his research were as follows:

1. Percent of Urban Population
2. Per Capita Income
3. Non-Agricultural Employment
4. Literacy
5. Owner Occupancy of Housing
6. Newspaper Circulation per 1,000

Hofferbert suggests that the strengths of the relationships of the correlations have substantial variations and that a conclusion of connection between the variables could not be considered complete. He does, however, offer urbanization, high income, widespread education, as well as communication methods used by the executive, administrative, and legislative leaders as a positive climate for policy innovation (Hofferbert, 1966).

Hofferbertôs research supports his theory that the variations of the ecological/socio-economic characteristics of the states is declining. States are becoming increasingly similar in their characteristics. Increased interstate communication between administrators and policy makers could help provide the resources whereby a state learns of another stateôs successful policy adoption. Professional contacts at national and regional meetings could provide the tool to support this communication process (Hofferbert, 1966).

Hofferbert also suggests that once the national minimum requirements of the policy are met the policy makers may find ñtemporary expediencies, ideological predilections, or matters of momentary tasteò in their policy making efforts (Hofferbert, 1966, p. 475). At the point where the acceptable level of support is attained for a policy, the difference among states for certain ecological/socio-economic variables widens based on resource availability.

Walkerôs (1969) theory building study on diffusion, identified socio-demographic factors, political characteristics, regional reference groups, and communication patterns among states and compared the relationship between these factors and policy adoption (Welch & Thompson, 1980; Walker, 1969). The aim of his study was to ñdevelop propositions which might be used as guides to the study of the diffusion of innovations and which might also apply to budgeting and other forms of decision makingò (Walker, 1969, p. 881). He also identified his main purpose as developing an approach to governmental policy making which will serve as a guide for all legislative decisions and provide a better understanding of decisions made by bureaucrats, political executives and other governmental officials. Walker searched for the criteria that legislators and administrators used to determine whether a proposal was justifiable. Regardless of the decision maker, or how controversial an issue becomes, he theorized that general criteria exits in every state which provides guidelines for policy making (Walker, 1969).

Walker, through building an innovation score based on the analysis of eighty-eight different programs enacted by at least twenty state legislatures, created an innovation score for each state. He then attempted to explain this innovation score (the dependent variable) through correlations of different state characteristics (independent variables). These state characteristics were measured in terms of Demographic Factors and Political Factors.

He hypothesized that ñthe larger, wealthier states, those with the most developed industrial economies and the largest cities would have the highest innovation scores. It would seem likely that the great cosmopolitan centers in the country, the places where most of the societyôs creative resources are concentrated, would be the most adaptive and sympathetic to change, and thus the first to adopt new programsò (Walker, 1969, p. 884). To test these assumptions Walker used several socio-economic (demographic) factors. The socio-economic factors that resulted in a positive correlation were value added by manufacturing, percent urban population, total population size, and per capita income. The political factor that resulted in a positive correlation was the legislative apportionment or urban representation in the legislature (Walker, 1969).

Using demographic, political, and ecological/socio-economic factors similar to Hofferbert, Walker and Mooneyôs research may help explain why some states adopted Social Security coverage and others did not. The case study may also point to trends in how states may change over time in their resource availability, which may in turn affect their adoption of policy. Identifying those states that have additional resources when minimum standards for state Social Security policy adoption is attained may provide information on why some state and local governments adopted the Social Security coverage and others did not.

Conclusion

In recent years, research has continued to focus on the impact of mandatory Social Security on state and local government pension plans. The literature related to this subject has changed from mainly a government-based discussion to including in-depth research from leading research companies related to the financial effects of mandatory Social Security on state and local governments. The previous research suggested that mandatory Social Security will affect the financial stability of the pension plans. This research not only provides the analysis of factors that may contribute to a state or local governmentÕs decision to adopt Social Security coverage, it also provides documentation of financial effects that mandatory Social Security may have on state budgets, pension plans and their employees.

The research that has been undertaken, related to Medicaid (Nathan, 2013; Kettl, 2002; Marx, 2013), Medicare, and Unemployment Compensation (O'Leary & Straits, 2004; Health Care Financing Review, 2005; Stillman-II, 2005) identified how state and local governments interacted with the federal government and adopted certain policies and the factors that affect these policies. The information on policy adoption similar to the Section 218 Social Security policy provided possible explanations as to why state and local governments make certain choices in the policy adoption process (Walker, 1969; Mooney, 2001; Berry & Berry, 1990). The identification of internal state factors (Walker, 1969; Eyeston, 1977; Wejnert, 2012; Mooney, 2001; Elazar, 1984; Rausch, 2013; Gray, 2007; Johnson, 1976; Berry, Fording, Ringquist, Hanson, & Klarner, 2010; Berry, Ringquist, Fording, & Hanson, 1998) and specific policy factors (Walker, 1969; Hofferbert, 1966; Welch & Thompson, 1980; Mooney, 2001; Munnell, 2000) used in other research related to policy adoption also may provide possible explanation for state and local government policy adoption decisions. If a relationship between these factors and state Social Security policy adoption exists, the states and the federal government will be better prepared to understand the possible impact of the adoption of Social Security policy on state and local governments budgets, pension plans and their employees.

Chapter 3 Methodology

Introduction

Over the past 60 years, mandating Social Security for state and local governments has been an issue addressed mainly on the rationale of whether it is a violation of the Tenth Amendment and/or what the financial effect would be to state and local budgets and public pension systems. Empirical research relating to the actual choices to participate or not made by state and localities that chose Social Security coverage is sparse.

The review of literature did not yield findings or documentation on what influenced state and local governments to choose Social Security coverage for their employees. This research explores those areas. It will not only contribute to the study of policy adoption, specifically state and local social security policy adoption, but will also contribute to the on-going debate on whether to mandate Social Security coverage to all state and local government employees. This study will identify characteristics of each of the 50 states that may influence policy choices of state and local governments over time. Further, this study will provide a more defined foundation for examining the financial effects of mandating Social Security coverage on state and local governments.

Several studies have examined the effects of mandatory Social Security on both the budgets and pension plans of state and local governments. Many were case studies looking at one specific state or pension plan. These studies did not provide information about why a state or local government made the choices that they did in covering their employees with Social Security. There is a need to understand through more empirical research additional influences that affect the choices involved in mandating (or not) Social Security. The question is not only if there should be mandatory Social Security; it is also why a state or local government would choose *not to* participate in Social Security. State and local governments that chose not to cover their employees with Social Security had a reason for making these decisions. Identifying the reasons behind the choices made may provide information as to why mandatory Social Security should or should not be adopted. This leads to the following research questions:

1. What factors led state and local governments to adopt Social Security policy?
2. What is the fiscal impact of mandating Social Security?

This study examines the adoption of the Social Security coverage in each state by identifying the effects of three types of variables:

1. Variables representing a stateȏs external political environment
2. Variables representing specific state level characteristics
3. Variables representing a specific policy environment

Section 218 provides state and local governments the ability to cover their employees, through a referendum process, with Social Security in addition to pension plan coverage. A stateȏs decision to adopt Social Security Section 218 coverage is a product of the influences of the different levels of variables; the variables both directly and indirectly affected the previous choices of Social Security adoption. Many variables have been used in the study of policy adoption. The variables identified in this research appear to provide the most the relevance in the study of Section 218 Social Security policy adoption.

Background and Significance

The purpose of this research project is to determine what factors influence state and local governments to choose to participate in Social Security coverage for their employees. This is accomplished by identifying some of the most prominent state and local government influences affecting policy choices about Social Security. These include the political culture and ideology of the state, fiscal features of state and local public pensions and the national economy, and demographic information from state and local government employees and the broader population. The potential impact of policy diffusion is also considered by exploring neighboring statesô Social Security adoption. This research will help public administrators at the federal, state, and local levels to understand the reasoning behind state reactions to Social Security 218 and what may need to be considered when discussing, enacting, or implementing mandatory Social Security coverage for all state and local employees.

This chapter explains the methodology and research approach that will be used in the study. It also discusses the method used to collect and analyze the data from the 50 states, their pension plan data, and demographic information related to the policy adoption periods identified in Chapter 2. Using data from and description of these three time periods, the research explores the relationship between external, state, and policy specific environments with those state and local governments that did not adopted Social Security.

The external political environment involves those factors that are outside of the state and local government environment. The external political environment addresses research questions related to national factors and factors related to other stateøs policy adoption processes. The external political research questions uses the research article, Berry and Berry (1990), ñState Lottery Adoptions as Policy Innovations: An Event History Analysisò for identifying the neighboring states and the National Bureau of Economic Research for the economic recession identification.

The state specific research questions identify factors that are specific to the particular state. The state specific research questions use Daniel Elazarøs three different political subcultures to identify the states as individualistic, moralistic, and traditionalistic (Elazar, 1984;

Riley, 2013; Rausch, 2013). Berry et al (2010). provides the U.S. State Government Ideology Indicators for all states from 1960-2010. This information is used to identify the ideological makeup of the different states for the different time periods. The findings from these variables potentially identify the state specific traits of state Social Security policy adopters.

The policy specific environment identifies those factors that are specifically related to state and local government Social Security policy. The policy specific environment uses fiscal related research as well as socio-eocnomic research. The policy specific fiscal questions uses pension ratios to determine the fiscal profitability of the pension. Data from the Clark et al. (2011) book, *State and Local Retirement Plans in the United States,* and the U.S. Census are used to document the pension plan values for the related periods for each state and local governments with a reportable pension plan. The policy specific socio-economic questions uses the average state and local government salaries and employee population from U.S. Census Data.

Information available from the Clark, et al. (2011) book, *State and Local Retirement Plans in the United States*, the U.S. Census Bureauǿs Census of Governments and Social Security coverage data from the GAO report are used to determine the Social Security coverage of each state and local government based on the different time periods.

Research Methodology and Data Collection

This research uses a longitudinal case study approach across three periods of time. The research analyzes the possible factors that led the states, and local governments within the states, to make decisions related to adopting or not adopting Social Security coverage for their employees. The three periods used were the time periods during which a majority of legislative action related to state and local government Social Security coverage was enacted.

Each state was categorized as a more than 50% Social Security coverage state or less than 50% Social Security coverage state. This information was obtained from the U.S. Census for the first two time periods and the GAO for the third time period. The U.S. Census no longer provides detailed information related to Social Security coverage for the U.S. States. This data was used throughout the research project as the basis for determining the coverage for the state and local governments.

Each state was analyzed based on the external political factors, internal state factors, and specific policy factors. The results were then compared across the three time periods to identify the possible correlation between the different factors and the Social Security coverage. This identifies whether the factors discussed earlier influence the Social Security policy adoption decisions of state or local governments.

External political data, state specific data and policy specific data are analyzed for each time period analyzed. Three different periods were studied for the research.

1. 1950s-1960s ï The period of original Section 218 policy adoption.
2. 1980s-1990s ï The period of major legislation related to state and local governmentsô Social Security coverage.
3. 2000s ï The period before/during the next possible reform.

External Political Factors. The external political factors, those factors that are outside of the state and local government environment, address the research questions related to national factors and factors related to other statesô policy adoption processes. The national economy during the periods identified is analyzed to identify the impact of recessions on Social Security policy adoption. The date in which state and local governments adopt majority Social Security coverage for their employees is compared to other states to identify the extent in which states follow one another in the policy adoption process. In this research, the state of the national economy and the policy adoption of neighboring states during the time periods related to Social Security changes may have an influence on a state or local government's decision making. The National Bureau of Economic Research is used to determine the periods of economic recessions. The time periods that each state adopted coverage is used to identify the neighboring states decisions making. This information is used to gauge whether state and local governments and/or employees were less or more likely to participate in Social Security during times of economic recessions.

National Recession Indicators. Social Security coverage requires that both the employer and employee contribute an amount to the fund in return for future benefits. Changes in Social Security coverage of public employees would affect the financial stability of both the employer and employee. The budget or pension system of the employer would be required to handle the additional financial strain of the employer match required by Social Security. This match would come from either increases in expenditures or decreases in pension contributions to cover the employer match. Additionally, the employee's salary would decrease by the employee match. Depending on the health of the economy, the employer and/or employee may not be able to assume the financial strain of the additional contributions. This leads to the first research question:

Does the health of the national economy influence whether a state or local government will adopt Social Security coverage for their employees?

Hypothesis One: During periods of economic recession, employees and employers would be less likely to vote to participate in Social Security coverage.

The National Bureau of Economic Research (NBER) is used to identify the periods of recessions in the United States. These periods are then compared to periods of policy adoption within the states to determine whether there is a correlation between Social Security policy adoption and a decline in the economic activities of the nation.

Policy Adoption of Neighboring States. Neighboring statesô adoption of Social Security policy is also identified. Berry and Berry (1990) in their study of state lottery policy adoption, identified each stateǿs neighboring states. States often look to other neighboring states when researching different policies. If a neighboring state has had a positive experience with the adoption of a specific policy, in this case Social Security policy, then its neighboring states may choose to adopt a similar policy. This process is identified as policy diffusion. The related research question is:

Does the policy adoption of neighboring states influence whether a state or local government will adopt Social Security coverage for their employees?

Hypothesis Two: States where most of their border states have adopted Social Security will be more likely to adopt Social Security coverage for their employees.

A map of the states and the dates of their adoption of more than 50% Social Security coverage was prepared based on the neighboring states information obtained from Berry and Berry (1990). The states were then analyzed to determine whether some states adopted Social Security in responses to their neighboring states adoption.

Internal State Factors. Internal state factors are those factors that are specific to the state. In this case, political subculture and ideology are used to identify the political makeup of the state during the time period being researched. Political subculture identifies the attitudes and values of the citizens toward their government. These attitudes and values may influence whether the citizenry would be willing to adopt certain policies. The political ideology, conservatism and liberalism, identify the political values of the state. The ideology of the state may influence whether a state is more or less likely to adopt Social Security policy. The state and local government internal factors that may influence policy adoption used in this research are political subculture and political ideology. Elazarǒs map of Political Culture and data from Berry, et al. (2010) for Political Ideology of the states is used for the internal state factors. Both measurements are derived from previous research in state policy adoption.

Political Subculture. Elazar identified political culture among Americans as one of the reasons that states enacted different policies to deal with similar problems. The political culture was further divided into subcultures: individualistic, moralistic, and traditionalistic. These different subcultures identified states as having a particular pattern of orientation to certain political actions (Elazar, 1984; Riley, 2013). The individualistic subculture sees governments as practical and limited in the need for intervention in private activities. The moralistic subculture is the opposite of individualistic. Moralistic subculture sees government as a positive force, helping to create a great society. The traditionalistic subculture is between individualistic and moralistic.

Traditionalistic subculture sees government as a positive role in the community that is limited to securing social order and is custodial rather than innovative. The traditionalistic subculture is between individualistic and moralistic. Traditionalistic subculture sees government as a positive role in the community that is limited to securing social order and is custodial rather than innovative (Rausch, 2013; Riley, 2013; Elazar, 1984). These subcultures may influence whether a state will adopt Social Security coverage for their employees. This leads to the following research question:

Does the political subculture of a state influence the adoption of Social Security coverage for their state and local government employees?

Hypothesis Three: Individualistic states will be less likely to participate in Social Security coverage for state and local government employees.

The political subculture was identified for each state. The information was then compared to the stateҫs Social Security coverage across the three time periods to determine which subculture may be less likely to participate in the Social Security coverage.

Political Ideology. The overall political ideology influences whether a state will initiate new public policy. For this research, states are identified as conservative states or liberal states. Liberal states are more likely than conservative states to adopt social policies such as Social Security, welfare and healthcare. The research of Berry, et al. (2010) quantified state government ideology for the years 1960-2006. Berry et al. used ñthe roll call voting scores of state congressional delegations, the outcomes of congressional elections, the partisan division of state legislatures, the party of the governor and various assumptions regarding voters and state political elitesò to measure the ideology of a state (Berry, Ringquist, Fording, & Hanson, 1998). Gray (2007) confirms the use of political ideology as a means of predicting outcome of policy adoption among states. The Berry et al. (2010) estimations of political ideology will be used to answer the research question:

Does the political ideology of a state influence the adoption of Social Security coverage for their state and local government employees?

Hypothesis Four: Liberal states will be more likely to participate in Social Security coverage for their state and local government employees.

The Berry et al. (2010) political ideology research identified the political ideology for all 50 states across time periods including those being researched. This information was compared to the coverage percentage of the states to determine if liberal states were more likely to participate in Social Security coverage.

Specific Policy Factors. Specific policy factors are the factors that directly impact the Social Security policy. The specific policy factors that may influence policy adoption are divided into fiscal determinates and socio-economic determinates. Fiscal policy factors are those factors that affect the fiscal policies and procedures of the state or local government. The fiscal determinates are the pension plan active member to beneficiary ratio and market asset to beneficiary payment ratio. Socio-economic factors are those factors that affect both society and the economy. The socio-economic factors are average salary and number of employees for state and local governments. The U.S. Census Bureau's Census of Governments for State and Local Governments will be used to determine pension information, average salaries, and population of public employees.

Fiscal Determinants. The state specific fiscal determinants related to Social Security policy adotption that will be used in this study are the ratio of active members to beneficiaries in the state and local public pension systems and the ratio of market assets to benefit payments in the public pension system. The U.S. Census Bureau's Census of Governments data will be used to determine the funding, active covered participants and beneficiaries for the public pensions for each state.

The ability of the pension plan to provide future benefits could influence the decision for Social Security coverage. If the pension plan appears to have adequate funding to support future retirees, the states may choose not to adopt Social Security. Those states that do not have adequate funding for their pensions may choose to adopt Social Security to insure that members have additional pension funds to support their future retirement.

Munnell (2000) suggests that mandating Social Security coverage for state and local government will have a financial impact on the public pension plans (Munnell, 2000). When this figure is not available for early years, she suggests using a ratio of assets to benefit payments as a means of pension plan funding status. The report documented that the 14 major plans not covered by Social Security had a slightly better funding ratio than those covered by Social Security. Also noted in the research was that plans not covered by Social Security appear to have higher benefit accrual rates and more generous cost-of-living provisions than the groups as a whole, although none provide the full inflation protection offered by Social Security.

Active Members to Beneficiaries Ratio. The number of active members can be compared to the number of beneficiaries receiving periodic benefit payments. The higher the number of active members in comparison to beneficiaries, the more available funding for the retirees. As the number of active members declines or the beneficiaries increase or both, the ratio decreases. This inverse relationship is often seen when there are personnel cuts or retirement incentives. The active members become beneficiaries and additional active members do not replace the previously active members. The ratio of active members to beneficiaries leads to the next research question:

Does the ratio of active members to beneficiaries influence whether a state or local government will adopt Social Security coverage for their employees?

Hypothesis Five: State and local governments with higher ratios of active members to beneficiaries are more likely to adopt Social Security coverage for their employees.

The active members to beneficiary ratio is computed based on pension information received from the U.S. Census Bureau. A higher ratio suggests that there are more active members to support the payouts needed for the beneficiaries. This information is compared to the coverage percentage to determine if pension plan funding affects the adoption of Social Security coverage.

Plan Market Assets to Benefit Payments Ratio. The relationship between plan market assets and benefit payments can also be analyzed to provide information related to funding of the pension plan. Increased market assets over pension benefit payments would suggest a financially stable pension plan. The next research question is, as follows:

Does the ratio of plan market assets to pension benefit payments influence whether a state or local government will adopt Social Security coverage for their employees?

Hypothesis Six: State and local governments with higher ratios of plan market assets to pension benefit payments are less likely to adopt Social Security coverage for their employees.

The market assets to pension benefits ratio is computed based on pension information received from the U.S. Census Bureau. A higher ratio suggests that there are more assets to support the payouts needed for the beneficiaries. This information is compared to the coverage percentage to determine if pension plan funding affects the adoption of Social Security coverage.

Specific Socio-Economic Determinants. Walker (1969), Berry and Berry (1990), and Berry et al. (1998; 2010) identified several socio-economic variables throughout this research as pertinent to the adoption of state policy. The variables have been adapted to identify factors related to the state and local government Social Security policy. The state and local government Social Security specific socio-economic variables are average salary for the state and local government, and government employee population.

Average State and Local Government Salary. The average salaries of the state and local government employees could influence whether a state or local government would adopt Social

Security coverage. As the employeeôs salary increases up to a cap, both the employee and the employer share of Social Security contributions increase. The Social Security contributions are a flat percentage of an employeeôs salary until a higher salary cap is reached. Those employees with higher salaries will pay more in taxes, until the cap is reached, than those with lower salaries. The next research question is:

Does the average salary of government employees influence whether a state or local government will adopt Social Security coverage for their employees?

Hypothesis Seven: State and local governments with higher average government salaries would be less likely to participate in Social Security coverage.

The average government salary for all state and local government employees is obtained from the U.S. Census Bureau. This information is compared to the coverage percentage to determine if the amount a state or local government has to pay out to support employees affects the adoption of Social Security coverage.

Number of Government Employees. The number of government employees could also have an effect on whether a state or local government initiates a referendum for Social Security coverage. States with larger populations of government employees would be paying larger contributions than those with smaller populations of employees. A smaller population of employees may not have a significant effect on the financial stability of the state or local government. The research question is:

Does the population of state and local government employees influence whether a state or local government will adopt Social Security coverage for their employees?

Hypothesis Eight:	States with larger public employee populations will be less likely to participate in Social Security coverage for their employees.

The population of all state and local government employees within a state is obtained from the U.S. Census Bureau. This information is compared to the coverage percentage to determine if the size of the population of state and local government employees affects the adoption of Social Security coverage.

Current Financial Issues of Mandating Social Security.

According to a Pew Charitable Trust report (2012), in 2010 nationally there was a $1.38 trillion dollar gap between expected public employee retirement benefits and the funding to support this amount. In 2010, Wisconsin was the only state to have a fully funded pension plan. Connecticut, Illinois, Kentucky and Rhode Island were in the worst shape with their pension funding being less than 55%. This means that if everyone were to retire today then there would only be enough funds to support 55% of the required payouts. Thirty-four states were below the recommended 80% threshold. Over the last few years, states have put in reforms to help mitigate this financial crisis.

If mandatory Social Security is enacted all state and local government employees and employers would be required to contribute to Social Security. This would be in addition to their existing pensions. Their existing pension may be altered to compensate for the additional contributions to Social Security. The enactment of mandatory Social Security on state and local governments could drastically increase the pension underfunding. Illinois, one of the states with the lowest funding, has approximately 413,000 employees that are not covered by Social Security. Mandating Social Security could cost the state budget or pension plan of Illinois in excess of $1.2 billion. That same amount would be required of the uncovered employees (U.S. Department of Commerce U.S. Census Bureau, 2007; Government Accountability Office, 2010).

An analysis of the possible costs associated with adopting mandatory Social Security was performed to determine the financial consequences. This data detailed the amount of employee and employer costs associated with mandating Social Security for all state and local government employees. Data comes from the U.S. Census Bureau's Census of Governments and the Social Security coverage data from the GAO report.

Munnell (2000) stated that while covering only new employees would ease the transition, the costs would increase. The combined costs of public pension and Social Security for the non-covered employees would depend on how the state and local governments and pension plan administrators provided for the increased costs. Most entities would not be able to add the Social Security coverage on top of the existing plans. Pension plan administrators would have to change their retirement and disability programs to mitigate the increased costs of adding Social Security (Munnell, 2000).

The state and local governments would have several options in funding mandatory Social Security. Four of these options are defined below:

Option One. The state will use the state budget to fund the 6.2% additional amount for employer share of Social Security. The employee will pay the 6.2% additional amount for the employee share. The pension contributions will be not be affected.

Option Two. The state will use the state budget to fund the 6.2% additional amount for the employer share and the 6.2% additional amount for the employee share. The pension contributions will remain the same. The employeeȇs pay will not be affected.

Option Three. The pension plan contributions will be reduced by the 6.2% additional amount for the employer share of Social Security. The employee will pay the 6.2% additional amount for the employee share. The state budget will not be affected.

Option Four. The pension plan contributions will be reduced by the 6.2% additional amount for the employer share of Social Security. The state will use the state budget to fund the 6.2% additional amount for the employee share. The employee pay will not be affected.

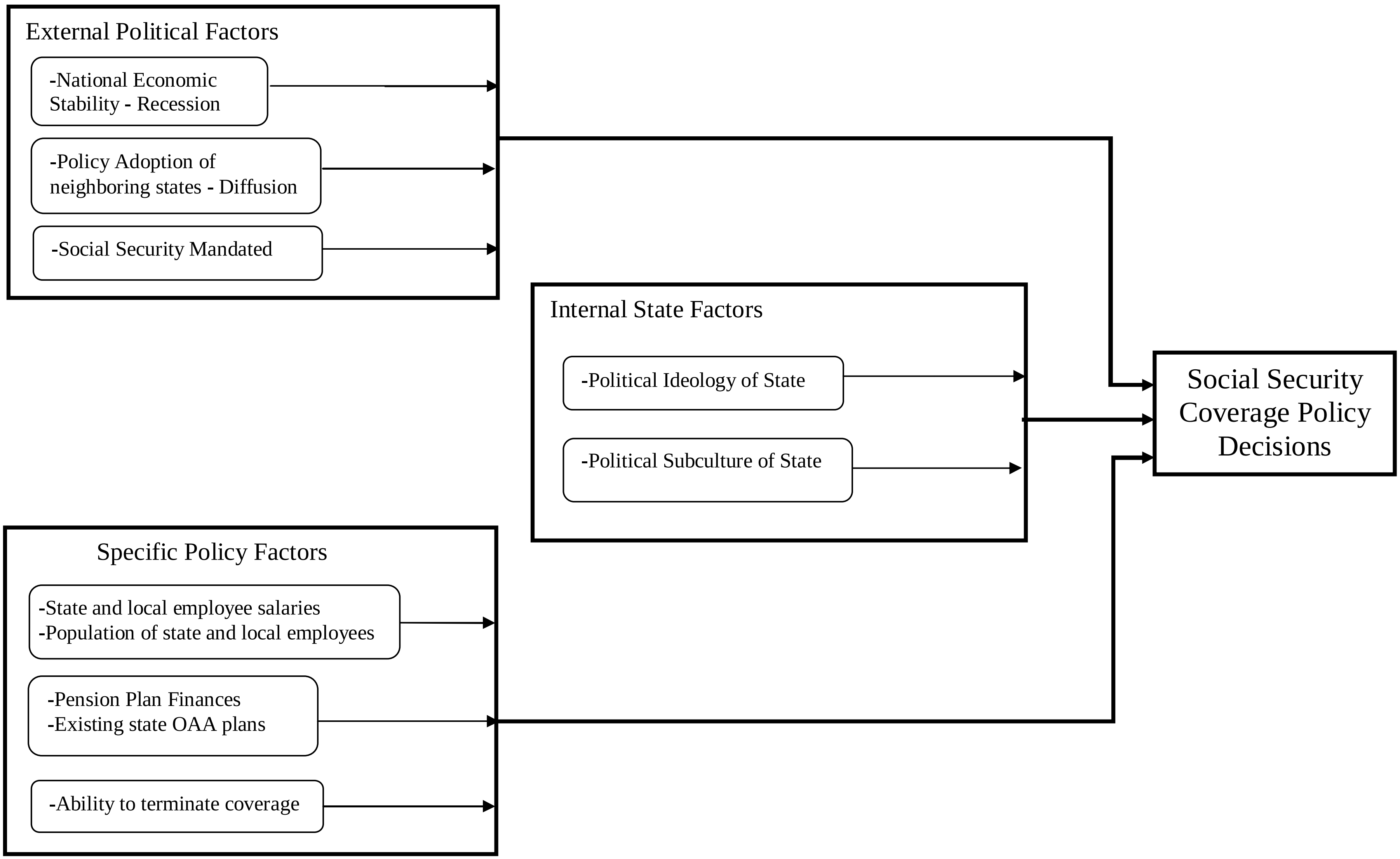
The estimated salaries from the U.S. Census Bureau along with the estimated population of state and local government employees not covered by Social Security from the GAO was used to calculate the annual estimated cost to the pension plans, the states and local governments and the employees. Several state and local pension plans were analyzed to determine the financial effects of mandating Social Security. The financial impacts of mandatory Social Security adds another, more recent piece of information to advise current policy choices of the federal government and state responses. Taken together, the external, state and policy specific information with the financial impacts here provide an important view of the mandatory Social Security.

Summary

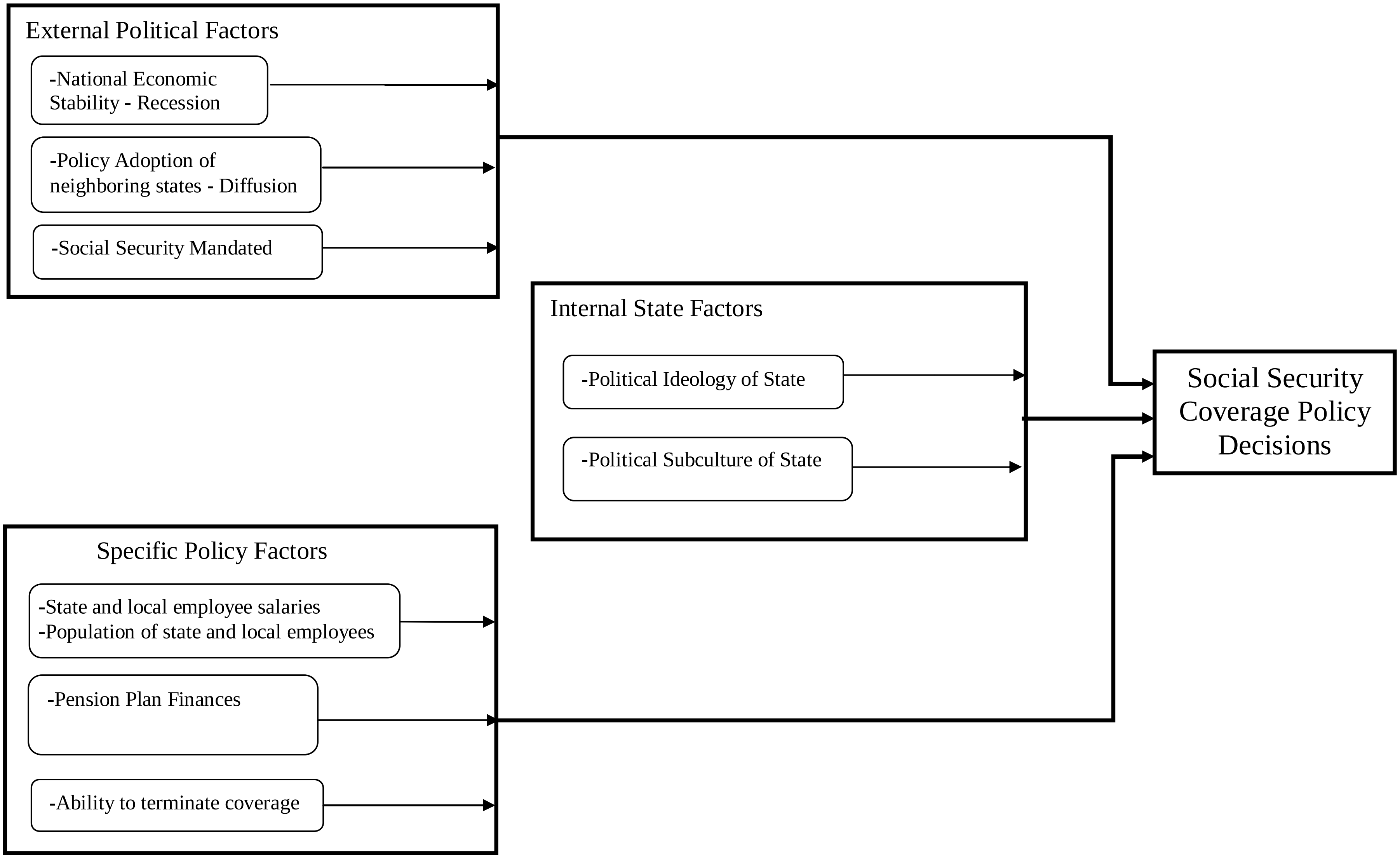
This chapter outlined this researchôs primary research questions, and discussed the methodological approaches used. The related literature review, research questions, hypotheses, variables, data and data collection methods, and research models were identified to provide a framework for this case study exploring why states and local governments made their past decisions about Social Security coverage for their employees. This research uses one dependent variable, Social Security coverage. The state and local governments are combined into one group and identified dichotomously as states with 50% or more public employees covered by Social Security and states with less than 50% coverage. There are eight independent variables: National recession, policy adoption of neighboring states, political subculture, political ideology, ratio of active members to beneficiaries, ratio of plan market assets to pension obligations, average government salary, and number of government employees.

This research examines the possible correlation between state Social Security policy adoption and the variables identified. With policy adoption and in this case, state Social Security 218 policy adoption, public administrators must be concerned not only with the state and local government entity they represent but also the employees of the state, the political affiliates, the other managers and the effect of the policy adoption on their citizenry. This research will help public administrators at federal, state, and local levels understand the influences on previous decisions that were made. By understanding the influences on state decision-making, along with the financial impacts associated with mandating Social Security, administrators and elected officials may better understand and anticipate the choices, challenges, and impacts of state responses to Social Security mandates from the national government in the future.

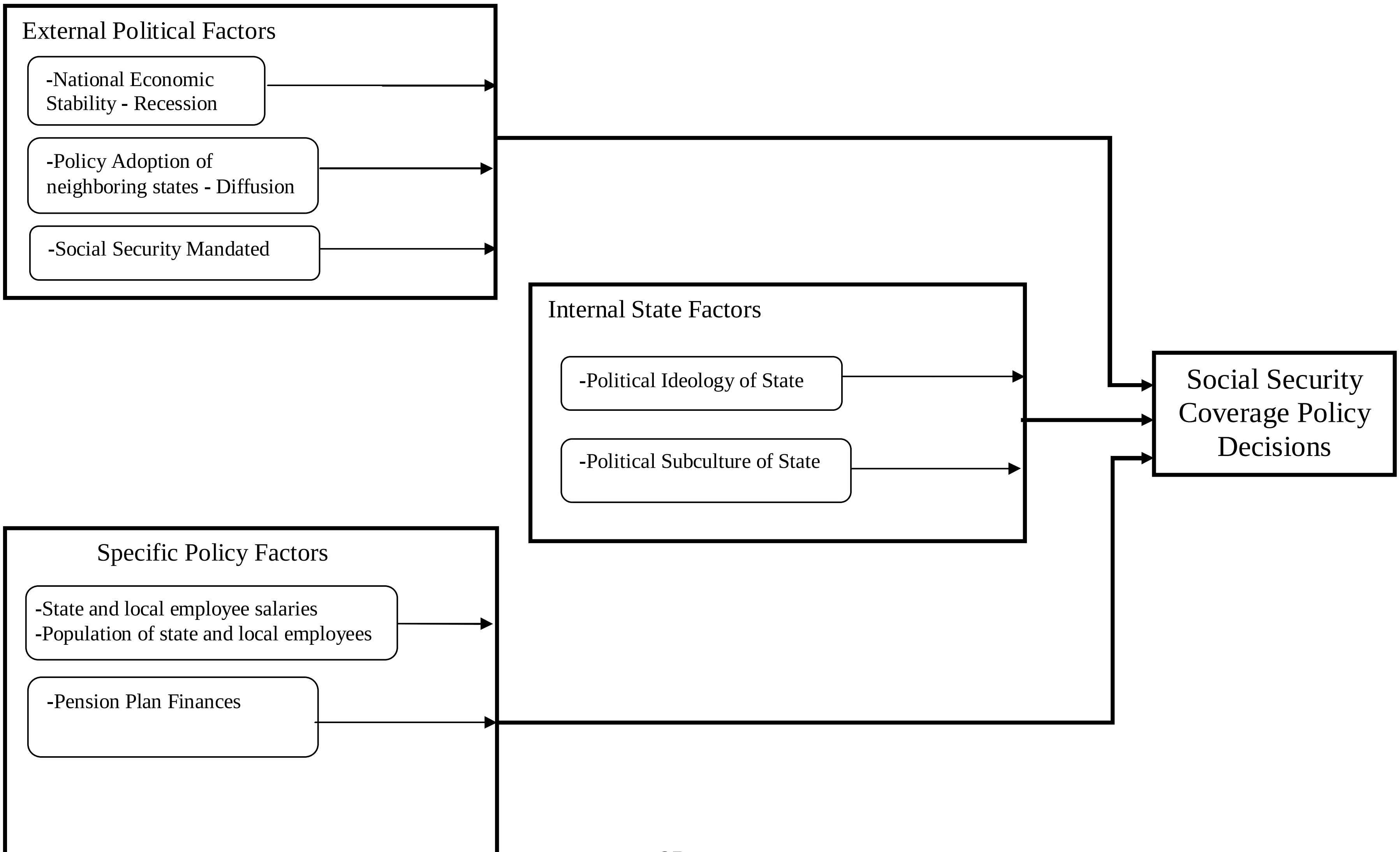
Policy Models By Year 1950s-1960s



Policy Models By Year 1980s-1990s



Policy Models By Year 2000s



Chapter 4 Findings and Results

Introduction

The purpose of this research is to examine the impact that certain variables may have on state and local governmentôs adoption of Social Security Section 218 coverage. External political factors such as the state of the national economy, the activities of other states and the Social Security issues of the given time periods may influence a state or local government to adopt Social Security coverage. Internal State factors may also influence the decision to adopt Social Security coverage. State political ideology and subculture may contribute to the decision to adopt Social Security coverage. There are also specific policy issues that may affect whether a state or local government adopts Social Security coverage such as employee salaries and population as well as the financial stability of the state and local government pension plans.

Under the current legislation, state and local governments may choose whether to cover their employees for Social Security. Some state and local governments have covered almost all of their employees while other state and local governments have covered a minimal number of their employees. This research explores the factors effecting why a state or local government would choose to cover or not cover their employees through the Social Security 218 coverage process.

Using a longitudinal case study process across three time periods and the external, internal and policy specific factors discussed above, this research attempted to identify variables that led a state or local government to adopt Social Security 218 coverage for their employees during the 1950s ï 1960s, 1980s ï 1990s and 2000s. The research is divided into four sections. The three periods listed above were analyzed and then the fourth section provides a comparisons among the three periods.

Early State Old Age Assistance Programs

Before the federal Social Security Act of 1935 was passed, many states established their own Old Age Assistance (OAA) programs to care for their elderly. Before the Great Depression began in October 1929, there were four significant recessions:

January 1920-July 1921 (18 months)

May 1923 ï July 1924 (14 months)

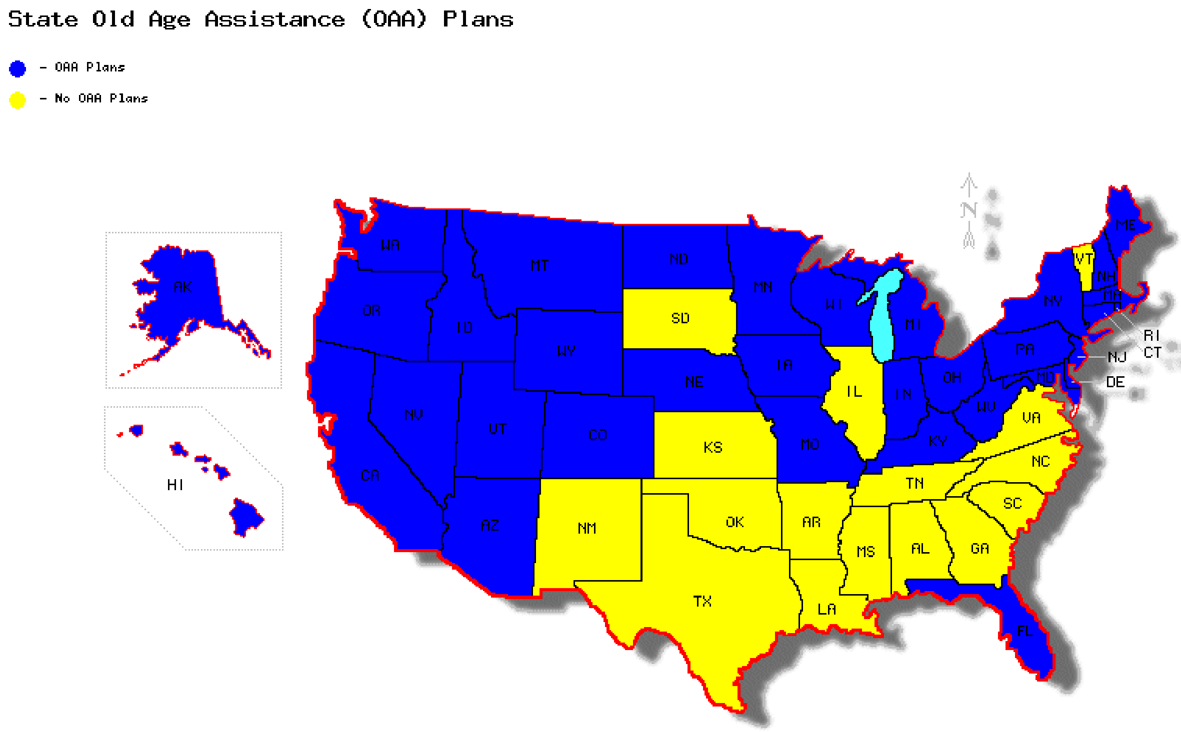
October 1926 ï November 1927 (13 months)

August 1929 - March 1933 (43 months).

(National Bureau of Economic Research, 2013)

These recessions along with the Great Depression were leaving many elderly individuals without proper financial resources to survive. The overwhelming increase in the indigent elderly population led states to develop programs to mitigate this social issue. The first OAA plan was passed in 1923 by the State of Montana. By 1931, 17 states and 1 territory had created OAA plans and by the enactment of Social Security in 1935 there were a total of 32 states and two territories with state OAA plans (Figure 4-1 State Old Age Assistance Plans) (Clark, Craig, & Sabelhaus, 2011). However, not all states had Old Age Assistance Plans and most of these plans were ñwelfare plans for the elderly, rather than universal pension plansò (Clark, Craig, & Sabelhaus, 2011). These plans were often underfunded and needed the taxing and borrowing power of the federal government (Clark, Craig, & Sabelhaus, 2011).

Figure 4-1 State Old Age Assistance Plans



Data compiled from

(Clark, Craig, & Sabelhaus, 2011)

Even though the states struggled with funding issues because of a decline in tax revenues and increase in covered population, the states, as laboratories of democracy, provided the foundation for the Social Security program.

When established, the 1935 passage of the National Social Security Act excluded from coverage government employees. The Tenth Amendment had prevented state and local governments from participating in Social Security coverage for their employees because the federal government could not levy the Social Security tax on the state as an employer due to state sovereignty granted by the U. S. Constitution. Many state and local governments relied on their pension plans established early on as the means of providing retirement benefits to their employees. As the federal Social Security program began to expand Congress continued to look for ways to support the program and provide a safety net for employees with pension coverage.

1950s – 1960s

During the 1950s ï 1960s, there was greater cooperation and collaboration between the federal, state, and local governments. This period of time overlapped the cooperative and creative federalism period and the cooperative, concentrated and creative intergovernmental period. The federal government and the state and local governments worked together to help combat social and economic issues. Economic distress from the Great Depression and the end of World War II brought the nation together. By the 1950s the economy of the nation was stronger than ever. The strength of the economy allowed for many social policies to be implemented during this time. The federal government was committed to address many of the social issues, including poverty, and urban and rural development. One of these social issues was the old age assistance program for state and local governments.

In 1950, the Social Security Act was amended to add a number of new coverage categories. Included in this amendment was the addition of Section 218 of Title II of the Social Security Act (Clark, Craig, & Sabelhaus, 2011). Title II Section 218 of the Social Security Act, commonly known as the 218 Agreement or Section 218, was established effective January 1, 1951, which allowed for the voluntary inclusion of government employees in the federal Social Security program (Social Security Administration, 2013).

Through Section 218 of the Social Security Act, states could enter into voluntary agreements with the federal government to provide coverage for state and local government employees. By voluntarily allowing the federal government to tax the state and local governments as employers, the employees would be provided Social Security coverage. The only public employees that were allowed to participate in Social Security were those employees not covered by an employer provided retirement system (Mitchell, et al., 2000 as cited in Clark, Craig, & Sabelhaus, 2011).

In 1955, the Social Security Act was again amended. This amendment allowed state and local government employees participating in government-sponsored pension plans to be covered under Social Security (Clark, Craig, & Sabelhaus, 2011). States were able to convert their existing OAA plans for all citizens to the federal Social Security System (Clark, Craig, & Sabelhaus, 2011).

State Level OAA Plan Analysis. Since states already had both OAA plans and government pension plans during the onset of Social Security this may have affected whether the state would choose to cover their employees with the new Social Security system. Analyzing those states that had existing systems with the states that adopted Social Security first may provide some explanation on whether this contributed to the stateǿs decision for Social Security coverage.

Social Security coverage was enacted in 1951 for state and local government employees that did not already have retirement coverage under a state or local retirement plan. In 1953, the U.S. Census Bureau performed a State and Local Government Special Study on Retirement Coverage of State and Local Government Employees (U.S. Census, March 1953). This was one of the first reports to identify an estimated number of employees that were covered under the newly adopted Social Security Section 218 Agreement. Table 4-1 provides an analysis of the coverage data provided by the report as well as the OAA plans. Of the estimated 1,470,400 state and local government employees that were not covered under a state or local retirement plan and were eligible for Social Security coverage, only 438,100 (38%) were covered. Of the 32 states that had OAA plans before Social Security, six states (19%) covered at least half of their eligible employees with Social Security. Of the 16 states that did not have OAA plans before Social Security, seven of these states (43%) covered at least half of their employees with Social Security (U.S. Census, March 1953). This provides possible evidence that the lack of a state sponsored OAA plan led some states to be early adopters of the federal Social Security system (U.S. Census, March 1953; Clark, Craig, & Sabelhaus, 2011).

Table 4-1 1952 State and Local Government Employee Retirement Coverage

	Year State OAA Plan Adopted	State and Local Government Employees	State and Local Government Employees with Retirement Coverage	State and Local Government Employees with No Retirement Coverage & Eligible for Social Security Coverage	State and Local Government Employees Covered by Social Security	Percent Covered by Social Security	State and Local Government Employees with no Retirement Coverage	Percent State and Local Government Employees with no Retirement Coverage	
MONTANA	1923	20,800	14,500	6,300	0	0%	6,300	30%	
NEVADA	1925	6,900	5,900	1,000	0	0%	1,000	14%	
WISCONSIN	1925	115,700	69,300	46,400	8,900	19%	37,500	32%	
KENTUCKY	1926	61,500	24,200	37,300	29,400	79%	7,900	13%	
COLORADO	1927	46,500	28,400	18,100	6,900	38%	11,200	24%	
MARYLAND	1927	46,600	32,500	14,100	2,200	16%	11,900	26%	(1)
ALASKA	1929	Did not become a State until 1959							
CALIFORNIA	1929	388,500	299,900	88,600	12,800	14%	75,800	20%	
MINNESOTA	1929	81,300	50,800	30,500	0	0%	30,600	38%	(1)
UTAH	1929	25,600	10,900	14,700	4,300	29%	10,400	41%	
WYOMING	1929	11,100	5,400	5,700	2,800	49%	2,900	26%	
MASSACHUSETTS	1930	166,300	129,400	36,900	0	0%	36,900	22%	
NEW YORK	1930	508,100	426,600	81,500	0	0%	81,500	16%	
DELAWARE	1931	10,300	7,500	2,800	400	14%	2,500	24%	
IDAHO	1931	20,900	5,700	15,200	12,300	81%	2,900	14%	
NEW HAMPSHIRE	1931	19,400	9,800	9,600	1,200	13%	8,500	44%	
NEW JERSEY	1931	136,800	90,700	46,100	0	0%	46,100	34%	
WEST VIRGINIA	1931	49,800	24,200	25,600	17,800	70%	7,700	15%	
ARIZONA	1933	24,600	13,400	11,200	5,400	48%	5,800	24%	
HAWAII	1933	Did not become a State until 1959							
INDIANA	1933	86,400	40,800	45,600	16,900	37%	28,700	33%	(1)
MAINE	1933	30,300	17,100	13,200	2,100	16%	11,100	37%	
MICHIGAN	1933	202,300	157,400	44,900	9,100	20%	35,700	18%	
NEBRASKA	1933	48,600	18,600	30,000	17,400	58%	12,500	26%	
NORTH DAKOTA	1933	24,100	16,900	7,200	0	0%	7,300	30%	
OHIO	1933	234,000	185,200	48,800	0	0%	48,700	21%	
OREGON	1933	53,500	34,900	18,600	3,800	20%	14,800	28%	
PENNSYLVANIA	1933	235,800	168,300	67,500	5,100	8%	62,400	26%	
WASHINGTON	1933	85,900	61,200	24,700	4,100	17%	20,600	24%	
IOWA	1934	91,300	74,000	17,300	0	0%	17,200	19%	
CONNECTICUT	1935	61,800	48,400	13,400	3,900	29%	9,600	16%	
FLORIDA	1935	101,000	69,700	31,300	7,100	23%	24,100	24%	
MISSOURI	1935	104,900	35,800	69,100	54,400	79%	14,600	14%	
RHODE ISLAND	1935	21,000	15,300	5,700	3,300	58%	2,500	12%	
Total States with OAA		3,121,600	2,192,700	928,900	231,600	25%	697,200	75%	
ALABAMA	No OAA	72100	39000	33100	17600	53%	15500	21%	
ARKANSAS	No OAA	42700	15800	26900	17300	64%	9500	22%	
GEORGIA	No OAA	85800	49500	36300	0	0%	36400	42%	
ILLINOIS	No OAA	239300	182700	56600	0	0%	56600	24%	
KANSAS	No OAA	65500	21300	44200	28800	65%	15400	24%	
LOUISIANA	No OAA	78800	55900	22900	400	2%	22600	29%	
MISSISSIPPI	No OAA	55900	1800	54100	36800	68%	17300	31%	
NEW MEXICO	No OAA	22000	15400	6600	0	0%	6600	30%	
NORTH CAROLINA	No OAA	103200	66900	36300	4500	12%	31800	31%	
OKLAHOMA	No OAA	70400	24400	46000	30300	66%	15600	22%	
SOUTH CAROLINA	No OAA	54300	37600	16700	0	0%	16700	31%	
SOUTH DAKOTA	No OAA	24200	400	23800	19200	81%	4600	19%	
TENNESSEE	No OAA	60600	35000	25600	8100	32%	17400	29%	(1)
TEXAS	No OAA	206900	137100	69800	12700	18%	57100	28%	
VERMONT	No OAA	12800	5200	7600	2300	30%	5300	41%	
VIRGINIA	No OAA	85900	50900	35000	28500	81%	6500	8%	
Total State with no OAA		1280400	738900	541500	206500	38%	334900	62%	
Grand Total All States		4,402,000	2,931,600	1,470,400	438,100	30%	1,032,100	70%	

(1) State data unavailable. Number represent local data only.

Data compiled from (Clark, Craig, & Sabelhaus, 2011; U.S. Census, March 1953)

In 1955, Section 218 was modified to allow state and local government employees covered by a state or local government retirement plan to be covered with Social Security. Table 4-2 provides a comparison of state OAA plan adoption and public employee Social Security coverage in 1952 and 1956 with a column identifying the change in coverage from 1952 to 1956. Of the 32 states that had OAA plans before Social Security, 15 states (47%) now covered at least half of their public employees with Social Security. This was an increase of nine states over the 1952 estimates. In 1951, 28% of the eligible employees in OAA covered states had Social Security coverage. By 1955, this number had increased to 48% (Clark, Craig, & Sabelhaus, 2011).

Of the 16 states that did not have OAA plans before Social Security, 10 of these states (63%) now covered at least half of their employees with Social Security. This was an increase of three states over the 1952 estimates. In 1951, 32% of the eligible employees in non-OAA covered states had Social Security coverage. By 1955, this number had increased to 57% (Clark, Craig, & Sabelhaus, 2011).

In 1951, states without OAA coverage may have chosen Social Security coverage for their employees but as the option for coverage under both Social Security and retirement became available, more states with OAA coverage began to cover their employees with Social Security. Those states with OAA coverage may have converted their OAA employees to Social Security. This could explain the increase in Social Security coverage for this group. Lack of OAA state coverage may have had an effect on whether a state covered their employees with Social Security early but with the change in the law, more OAA states began covering their employees.

Table 4-2 State OAA Plans compared to Social Security Coverage 1952 & 1956

	Year State OAA Plan Adopted	Percent of Social Security Eligible Employees Covered by Social Security 1952 (1)	Percent Covered by Social Security in 1956 (2)	Change in coverage	
MONTANA	1923	0%	63%	63%	
NEVADA	1925	0%	7%	7%	
WISCONSIN	1925	17%	32%	15%	
KENTUCKY	1926	79%	56%	-23%	
COLORADO	1927	38%	28%	-10%	
MARYLAND	1927	16%	10%	-6%	
ALASKA	1929	Did not become a State until 1959			
CALIFORNIA	1929	14%	6%	-8%	
MINNESOTA	1929	0%	2%	2%	
UTAH	1929	38%	104%	66%	
WYOMING	1929	70%	95%	25%	
MASSACHUSETTS	1930	0%	0%	0%	
NEW YORK	1930	0%	18%	18%	
DELAWARE	1931	14%	85%	71%	
IDAHO	1931	81%	69%	-12%	
NEW HAMPSHIRE	1931	13%	47%	35%	
NEW JERSEY	1931	0%	83%	83%	
WEST VIRGINIA	1931	81%	74%	-7%	
ARIZONA	1933	48%	90%	42%	
HAWAII	1933	Did not become a State until 1959			
INDIANA	1933	37%	80%	43%	
MAINE	1933	16%	20%	4%	
MICHIGAN	1933	20%	80%	60%	
NEBRASKA	1933	58%	97%	39%	
NORTH DAKOTA	1933	0%	9%	9%	
OHIO	1933	0%	0%	0%	
OREGON	1933	20%	102%	82%	
PENNSYLVANIA	1933	8%	11%	3%	
WASHINGTON	1933	30%	34%	4%	
IOWA	1934	0%	94%	94%	
CONNECTICUT	1935	29%	14%	-15%	
FLORIDA	1935	23%	11%	-12%	
MISSOURI	1935	79%	66%	-13%	
RHODE ISLAND	1935	58%	43%	-15%	
		28%	48%	20%	
ALABAMA	No OAA	53%	90%	37%	
ARKANSAS	No OAA	64%	56%	-8%	
GEORGIA	No OAA	0%	25%	25%	
ILLINOIS	No OAA	0%	4%	4%	
KANSAS	No OAA	65%	85%	20%	
LOUISIANA	No OAA	2%	24%	22%	
MISSISSIPPI	No OAA	68%	84%	16%	
NEW MEXICO	No OAA	0%	10%	10%	
NORTH CAROLINA	No OAA	12%	75%	63%	
OKLAHOMA	No OAA	66%	63%	-3%	
SOUTH CAROLINA	No OAA	0%	93%	93%	
SOUTH DAKOTA	No OAA	81%	83%	2%	
TENNESSEE	No OAA	32%	29%	-3%	
TEXAS	No OAA	18%	45%	27%	
VERMONT	No OAA	25%	55%	30%	
VIRGINIA	No OAA	29%	92%	63%	
		32%	57%	25%	

(1) In 1952 only non retirement covered employees were eligible for Social Security Coverage
(2) In 1956 retirement covered employees were now eligible for Social Security
Note: For comparison purposes the 1952 number did not include those employees that were covered under a retirement plan since they were not eligible for Social Security coverage.

Data compiled from

(Clark, Craig, & Sabelhaus, 2011; U.S. Census, March 1953; U.S. Department of Commerce Bureau of the Census, 1962)

External Political Factors

OAA plans provided coverage before Social Security was available but as the economy of the nation changed so did the activities of the governments. The cooperative activities of the federal, state, and local governments led to the adoption of Section 218 of the Social Security in 1951, and the later amendment of 1955. This cooperation provided the state and local government employees with the availability of old age assistance. Many state and local governments took part in the adoption of this policy while others did not. What are some other factors that led some state and local governments to adopt Social Security for their employees?

Economy of the Nation. The economy of the nation during the 1950s ï 1960s was stronger than ever after coming out of the Great Depression and the end of War World II. During the strong economic times, many social policies such as Social Security were being modified. The commitment of the federal government to address issues such as poverty and economic development allowed for changes to the Social Security Act. The 1950s ï 1960s were not exempt from recessions. There were three recessions periods during the 1950s ï 1960s. The periods were from July 1953 ï May 1954, August 1957 ï April 1958, and April 1960 ï February 1961 (National Bureau of Economic Research, 2013). The 218 agreement was adopted in 1951 and modified in 1955 and Medicare and Medicaid were adopted in 1965. Although neither of these periods was during a recession, the legislation may have been influenced by previous recessionary times. Changes in the Social Security coverage policies may have led a state or local government to adopt coverage for their employees. A longitudinal analysis over time would help identify whether the economy of the nation may have had an effect on Social Security coverage.

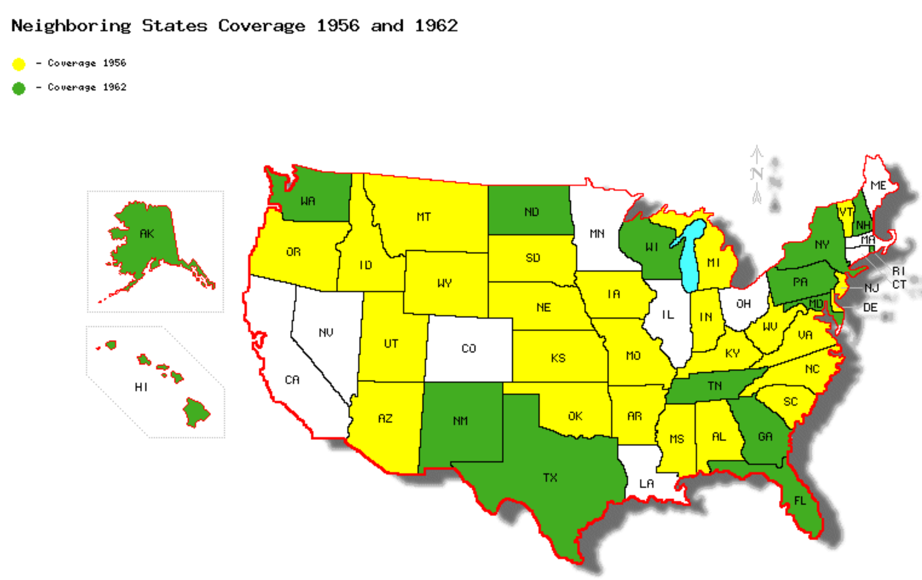
Policy Adoption of Neighboring States. The policy adoption activities of neighboring states may have influenced some state and local governments to adopt Social Security. Berry and Berry (1990) looked at neighboring statesô policy adoption in their study of state lottery policy adoption. They identified each stateøs neighboring states and compared the dates of when the lottery was adopted for that state and its neighboring states.

Berry and Berry (1990) identified each statesô neighboring states. The neighboring states along with the identification of states covered for Social Security may provide documentation of whether the neighboring states influenced the policy adoption.

Figure 4-2 shown below identifies those states in light grey as those where a majority of their employees were covered in 1956. The states highlighted in dark grey represent those states that adopted coverage by 1962. The white states do not cover a majority of their employees.

In the southeast, Florida had one border state that was covered and one that was not covered. Georgia and Tennessee both had a majority of their border states covered before they chose coverage for their employees. Maryland had a majority of its border states covered and the other northeastern states of New Hampshire, New York, Pennsylvania, and Rhode Island appear to follow the lead of one another. At least half of the border states of Texas, New Mexico, North Dakota, and Wisconsin had coverage before these states adopted Social Security coverage for their employees. All of Washingtonøs border states had coverage prior to Washingtonøs adoption of Social Security coverage for their employees. However, with the exception of Connecticut, Maine, and Massachusetts the remaining uncovered states, California, Colorado, Connecticut, Illinois, Louisiana, Minnesota, Ohio, and Nevada, also had a majority of covered border states but did not choose Social Security coverage for their state and local government employees. This analysis suggests that policy adoption of neighboring states, or diffusion of public policy, may or may not have influenced states during this period. Twenty-three states did not have Social Security coverage in 1956 and the number of uncovered states changed to thirteen in 1962. Diffusion may be part of the reason for the adoption of this policy but it appears other factors prevented the remaining uncovered states from adopting the policy in this initial phase, though perhaps more adopted in the later years.

Figure 4-2 Neighboring States Coverage 1956 and 1962



Data compiled from
(U.S. Department of Commerce, Bureau of the Census, 1963; U.S. Department of Commerce Bureau of Census, 1957)

Internal State Factors

Neighboring statesô activities and the economy of the nation were factors external to the state that may have influenced Social Security policy adoption. There are also internal state factors such as the political subculture and political ideology that may have led state and local governments to adopt Social Security for their employees.

Political Subculture. Drawing on Daniel Elazarôs political subcultures, Table 4-3 shows the Social Security coverage data for 1962 compared to the subculture for that state. Each state is identified as one of the three subcultures, Moralistic, Individualistic, and Traditionalistic. This information together with the Social Security coverage information will be analyzed to see if there is any correlation between the two.

The traditionalistic states showed the strongest support for Social Security coverage. Of the 16 traditionalistic states, 15 (94%) of these covered more than 50% of their employees with Social Security coverage. Moralistic states accounted for 17 states of which 13 (76%) covered more than 50% of their employees with Social Security. Last, 12 (71%) of the 17 individualistic states covered their employees by more than 50%. This information suggests that traditionalistic states are more likely to adopt Social Security coverage than either moralistic or individualistic. Since traditionalistic subcultures see government as a positive role in the community that is limited to securing social order this may explain why this group would choose Social Security. Social Security would provide the social order to assist those without the necessary resources. The regional diffusion by the southern states to become traditionalistic as well as the lack of the original OAA programs by these states may have an effect on these results.

Table 4-3 Political Subculture Compared to Social Security Coverage 1962

POLITICAL SUBCULTURE		Percent of Social Security coverage in 1962	Total Coverage Count	Percentage
Individualistic States				
Less than 50% Social Security Coverage			5	29%
	CONNECTICUT	46		
	ILLINOIS	21		
	MASSACHUSETTS	0		
	NEVADA	2		
	OHIO	1		
More than 50% Social Security Coverage			12	71%
	ALASKA	69		
	DELAWARE	90		
	HAWAII	82		
	INDIANA	90		
	MARYLAND	93		
	MISSOURI	69		
	NEBRASKA	95		
	NEW JERSEY	84		
	NEW YORK	90		
	PENNSYLVANIA	81		
	RHODE ISLAND	62		
	WYOMING	97		
Total Individualistic States			17	100%
Moralistic States				
Less than 50% Social Security Coverage			4	24%
	CALIFORNIA	30		
	COLORADO	25		
	MAINE	23		
	MINNESOTA	43		
More than 50% Social Security Coverage			13	76%
	IDAHO	95		
	IOWA	95		
	KANSAS	87		
	MICHIGAN	95		
	MONTANA	91		
	NEW HAMPSHIRE	89		
	NORTH DAKOTA	91		
	OREGON	98		
	SOUTH DAKOTA	97		
	UTAH	95		
	VERMONT	59		
	WASHINGTON	93		
	WISCONSIN	89		
Total Moralistic States			17	100%
Traditionalistic				
Less than 50% Social Security Coverage			1	6%
	LOUISIANA	28		
More than 50% Social Security Coverage			15	94%
	ALABAMA	95		
	ARIZONA	96		
	ARKANSAS	93		
	FLORIDA	57		
	GEORGIA	70		
	KENTUCKY	59		
	MISSISSIPPI	92		
	NEW MEXICO	70		
	NORTH CAROLINA	96		
	OKLAHOMA	89		
	SOUTH CAROLINA	96		
	TENNESSEE	68		
	TEXAS	59		
	VIRGINIA	94		
	WEST VIRGINIA	95		
Total Traditionalistic States			16	100%

Data compiled from (Riley, 2013; U.S. Department of Commerce Bureau of the Census, 1962; Elazar, 1984)

Political Ideology. Political ideology may also have an impact on whether a state will adopt Social Security coverage for their employees. In Table 4-4, the Social Security coverage data from the 1962 census is compared to the results from Berry et al., research in the article *Measuring Citizen and Government Ideology in the U.S. States: A Re-Appraisal* (Berry, Fording, Ringquist, Hanson, & Klarner, 2010). This comparison identifies if conservative states or liberal states are more likely to adopt Social Security coverage for their employees.

In 1962, 21 states were considered conservative and 29 states were considered liberal. Nineteen of the 21 conservative states (90%) chose to adopt coverage for their employees. This is in contrast to 21 of the 29 liberal states (72%) that chose to adopt coverage for their employees. More of the conservative states adopted coverage for their employees suggesting that political ideology may play a part in a stateÕs decision whether to provide Social Security coverage to their employees.

Table 4-4 Political Ideology Comparison to Social Security Coverage 1962

Political Ideology	State	Percent of Social Security coverage in 1962	Total Coverage Count	Percentage
Conservative State				
Less than 50% Social Security Coverage			2	10%
	LOUISIANA	28		
	OHIO	1		
More than 50% Social Security Coverage			19	90%
	ALABAMA	95		
	ARIZONA	96		
	ARKANSAS	93		
	FLORIDA	57		
	GEORGIA	70		
	IOWA	95		
	KANSAS	87		
	MISSISSIPPI	92		
	NEBRASKA	95		
	NORTH CAROLINA	96		
	NORTH DAKOTA	91		
	OKLAHOMA	89		
	SOUTH CAROLINA	96		
	SOUTH DAKOTA	97		
	TENNESSEE	68		
	TEXAS	59		
	UTAH	95		
	VIRGINIA	94		
	WYOMING	97		
Total Conservative States			21	100%
Liberal States				
Less than 50% Social Security Coverage			8	28%
	CALIFORNIA	30		
	COLORADO	25		
	CONNECTICUT	46		
	ILLINOIS	21		
	MAINE	23		
	MASSACHUSETTS	0		
	MINNESOTA	43		
	NEVADA	2		
More than 50% Social Security Coverage			21	72%
	ALASKA	69		
	DELAWARE	90		
	HAWAII	82		
	IDAHO	95		
	INDIANA	90		
	KENTUCKY	59		
	MARYLAND	93		
	MICHIGAN	95		
	MISSOURI	69		
	MONTANA	91		
	NEW HAMPSHIRE	89		
	NEW JERSEY	84		
	NEW MEXICO	70		
	NEW YORK	90		
	OREGON	98		
	PENNSYLVANIA	81		
	RHODE ISLAND	62		
	VERMONT	59		
	WASHINGTON	93		
	WEST VIRGINIA	95		
	WISCONSIN	89		
Total Liberal States			29	100%

Data compiled from

(Berry, Fording, Ringquist, Hanson, & Klarner, 2010; U.S. Department of Commerce Bureau of the Census, 1962)

Specific Policy Factors

The external and internal state factors may have an effect on state and local government policy adoption as well as factors that are specific to Social Security policy. The financial health of state and local pension plans as well as the population and average salaries of state and local governments could influence the policy adoption decision-making process.

State and Local Government Specific Fiscal Determinants

Early on, state and local governments developed pension plans for their employees as well as teachers. By 1930, about 45% of public sector workers in the United States were covered by a retirement plan (Clark, Craig, & Sabelhaus, 2011). By 1935, when the Social Security Act was enacted, 25 states had pension plans for their state employees and teachers (Table 4-5 State Pension Plans Established before 1935) (Clark, Craig, & Sabelhaus, 2011).

Table 4-5 State Pension Plans Established before 1935

	Teacher Plan Established (1)	State Employee Plan Established (1)
ARIZONA	1912 (1954)	
CALIFORNIA	1913	1931
COLORADO		1931
CONNECTICUT	1917	1919 (1939)
FLORIDA		1927
HAWAII	1925	1925
ILLINOIS	1915 (1935)	
INDIANA	1915 (1921)	
MAINE	1919 (1942)	1909 (1925)
MARYLAND	1927	1927
MASSACHUSETTS	1914	1911
MICHIGAN	1917 (1945)	
MINNESOTA	(1915) 1931	1931
MONTANA	1915 (1937)	
NEVADA	1915 (1947)	
NEW JERSEY	1903 (1919, 1955)	1921 (1955)
NEW MEXICO	1933 (1957)	
NEW YORK	1903 (1919, 1921)	1920
NORTH DAKOTA	1913	
OHIO	1920 (1937)	1935
PENNSYLVANIA	1917 (1921)	1923
RHODE ISLAND	1908 (1949)	
VERMONT	1919 (1947)	
VIRGINIA	1908 (1942, 1952)	
WISCONSIN	1911 (1921, 1975)	

(1) Clark, et al. 2011

Pension Plan Member/Beneficiary Ratio. Different factors related to pension plans may affect whether a state or local government chooses to adopt Social Security coverage for public employees. The number of active members can be compared to the number of beneficiaries receiving periodic benefit payments. The higher the number of active members in comparison to beneficiaries, the more available funding for the retirees. The active members are contributing the funds while the funds are being paid out to the beneficiaries.

The ratio of active members to beneficiaries was obtained from the 1962 Census of Governments. Table 4-6 below shows the comparison of this ratio for both the states that provide more than 50% Social Security coverage for their employees as well as those that provide less than 50% Social Security coverage for their employees. Both groups on the table have similar trends. They both peak between 5 ï 10 active members per beneficiary and then decline as the ratio of active members to beneficiaries becomes higher This research suggests that the ratio of active members to beneficiaries does not appear to have an effect on the adoption of Social Security coverage.

Table 4-6 Active Members to Beneficiares Ratio 1962

1962 Ratio of Active Members to Beneficiaries all States

Ratio of Active Members to Beneficiaries	States with More than 50% Social Security coverage	Percentage	States with Less than 50% Social Security coverage	Percentage
Less than 5	5	13%	1	10%
5 - 10	19	48%	7	70%
10 - 15	11	28%	2	20%
15 - 20	3	8%	0	0%
20 or Greater	2	5%	0	0%
	40		10	

Data compiled from

(U.S. Department of Commerce, Bureau of the Census, 1963)

Plan Market Assets to Benefit Payments Ratio. The relationship between plan market assets and pension benefit payments can also be analyzed to provide information related to funding of the pension plan. Increased market assets over pension benefit payments would suggest a financially stable pension plan. Those pension plans that are more stable may be able to support the additional payout for Social Security.

The pension plan market assets, identified as Cash and Security holdings, and the total benefit payments were obtained from the 1962 Census of Governments. Table 4-7 below shows the comparison of this ratio for both the States that provide more than 50% Social Security coverage for their employees as well as those that provide less than 50% Social Security coverage for their employees. Both groups on the table have similar trends. They both peak at the 10 ï 20 range and begin to level out as the range becomes greater. This analysis suggests that the ratio of Market Plan Assets to Beneficiary Payments does not have an effect on whether the state and local governments chose to cover their employees for Social Security.

Table 4-7 Market Assets to Beneficiary Payments Ratio 1962

1962 Ratio of Plan Market Assets to Beneficiary Payments all States

Ratio of Plan Market Assets to Beneficiary Payments	States with More than 50% Social Secuirty coverage	Percentage	States with Less than 50% Social Security coverage	Percentage
Less than 10	2	5%	1	10%
10 - 20	14	35%	6	60%
20 - 30	13	33%	3	30%
30 - 40	7	18%	0	0%
Greater than 40	4	10%	0	0%
	40		10	

Data compiled from

(U.S. Department of Commerce, Bureau of the Census, 1963)

State and Local Government Specific Socio-Economic Determinants. State and local government specific socio-economic variables may provide support for why a state chose Social Security coverage for their state. Walker (1969), Berry and Berry (1990), and Berry et al. (2010) as well as others identified several socio-economic variables throughout their research as pertinent to the adoption of state policy including state and local government population and average salary. The public employee population was compared to the total population of the state to determine whether the relative size of state government employment affected whether a state chose Social Security coverage for their employees. The average salaries of the employees was analyzed to determine whether the average salary of government employees had an effect on Social Security coverage.

State and Local Government Employee Population. State and local governments with larger populations of employees would most likely pay out larger dollar volumes of contributions than those of smaller populations of employees. A smaller population of employees may not have a significant effect on the financial stability of the state or local government. The Table 4-8 below shows the comparison of the population of state and local employees as a percentage of total state population for both the states that provide more than 50% Social Security coverage for their employees as well as those that provide less than 50% Social Security coverage for their employees. Both groups start low at the less than 2.75% range with a rise at the 2.75% - 3.00%. As the population increases the less than 50% coverage states decreases and the greater than 50% coverage states increases. The more than 50% coverage group peaks at the 3.25% - 3.50% range and begins to fall with greater population. The less than 50% coverage group decreases at the 3.25% - 3.50 range and then has a slight increase before decreasing again. Since the less than 50% coverage group line is close to flat this would suggest that, as the employee population increases, there is no effect on this group. The more than 50% coverage group experiences a typical bell curve, which suggests that, as the population increases up to a point, states are more likely to cover their employees with Social Security. This case study suggests that the size of the population of state and local government employees has an effect on whether the states choose to cover their employees for Social Security in the mid-range of population. A longitudinal analysis will be necessary to see if there is a trend.

Table 4-8 State and Local Employee Population Percent of Total State Population 1962

State and Local Employees as a Percentage of Total Population	States with More than 50% Social Security Coverage	Percentage	States with Less than 50% Social Security Coverage	Percentage
Less than 2.75%	4	10%	0	0%
2.75% - 3.00%	8	20%	4	40%
3.00% - 3.25%	9	23%	1	10%
3.25% - 3.50%	12	30%	1	10%
3.50% - 3.75%	4	10%	3	30%
Greater than 3.75%	3	8%	1	10%
	40		10	

Data compiled from

(U.S. Department of Commerce, Bureau of the Census, 1963)

State and Local Government Employees Average Salaries. The financial status of the employees could determine whether the employees would be willing to contribute the additional amount. Those employees with higher salaries have more disposable income than those with lower salaries. The average salary of the group that is considering Social Security could influence the outcome of Social Security coverage.

Table 4-9 below shows the comparison of the average salary of state and local government employees for both the states that provide more than 50% Social Security coverage for their employees as well as those that provide less than 50% Social Security coverage for their employees. The trend on this table suggests that after a peak at the $351-$400 salary range the number of states that cover more than 50% of their employees are less likely to cover their employees as the salary increases. The less than 50% coverage group, however, appears to increase coverage as the salaries increase up to $451 - $500 range. After this range, both groups show only a slight difference in coverage based on average salary after this point. This analysis suggests that the average salary of state and local employees has an influence on whether the state and local governments choose to cover their employees for Social Security at certain salary levels. With higher salaries, the dollar amount of contributions to Social Security increase. The state and local governments may not be able to accept the higher payout from their budget.

Table 4-9 State and Local Government Average Monthly Salary 1962

1962 State and Local Government Average Monthly Salary

Average Monthly Salary of State and Local Employees	States with More than 50% Social Security Coverage	Percentage	States with Less than 50% Social Security Coverage	Percentage
$300 - $400	20	50%	3	30%
$401 - $500	17	43%	5	50%
%501 - $600	2	5%	2	20%
$601 - $700	1	3%	0	0%
	40		10	

Data compiled from

(U.S. Department of Commerce, Bureau of the Census, 1963)

Results from 1950s – 1960s. The 1950s ï 1960s was a period of new policy for state and local governments. With the passage of Section 218 of the Social Security Act state and local governments could now choose to adopt coverage for their employees. In 1952, just one year after the passage of Section 218, the average state and local coverage of eligible employees was 36%. At that time, employees who were covered by a retirement plan could not participate. In 1955, the Social Security Act was again modified and allowed employees that were covered by a retirement plan to participate in coverage. By 1962, the average coverage of all state and local government employees was 72% and only 10 states did not provide Social Security coverage to at least 50% of their employees. The following results were found for this period of time:

Table 4-10 Results from 1962

Factor	Effect
Neighboring States	Undetermined
Political Subculture	Traditionalistic States are more likely to provide Social Security Coverage
Political Ideology	Conservative States are more likely to provide Social Security coverage
Pension plan members	No Effect
Pension plan funding	No Effect
Population of employees	More Social Security coverage in the mid range of population
Average Salaries of employees	More Social Security coverage in the lower range of salaries

This time period provided for increased coverage opportunities for state and local governments. The opportunities were on a voluntary basis to the state and local governments. In the next time period we see a change in the intergovernmental relations of the federal state and local governments. The period of voluntary adoption is followed with several mandatory regulations.

1980s – 1990s

The 1950s ï 1960s presented state and local governments with the option to provide Social Security coverage to their employees. Eighty percent of the states covered more than half of their employees with Social Security coverage by 1962. The changes to the Social Security Act provided the option of coverage to most all state and local government employees. State and local governments could adopt coverage at any time and terminate coverage with a two year waiting period. The documentation for keeping up with the coverage issues were becoming more complex.

The 1980s ï 1990s saw a time period of contemporary federalism and calculative and contractive intergovernmental relations. Long gone were the cooperation and creative periods of federalism and intergovernmental relations. As quoted earlier, Senator Edmund Muskie ï Democrat, Maine stated: ñThe picture, then, is one of too much tension and conflict rather than coordination and cooperation all along the line of administration ï from top Federal policymakers and administrators to the state and local professional administrators and elected officialsò (Wright, Intergovernmental Relations: an Analytical Overview, 1974, p. 14). Court decisions and congressional statutes begin to contract the rights of state and local governments. State and local government Social Security policy was not exempt from these enactments.

During the 1980s ï 1990s several major issues affecting Social Security coverage for state and local government employees took place. ñThe 1977 Amendments to the Social Security Act required a study of the desirability and feasibility of coverage of all public employeesò (Munnell, 2000, p. 1). This led to several changes to the Social Security coverage for all public employees. The 1983 Social Security Amendment was enacted mandating that all federal government employees and members of Congress hired after January 1, 1984 be included in Social Security coverage. Also included in this amendment was legislation that prohibited employees from withdrawing from Social Security coverage once they were already covered. Until 1983, employers could opt in or out of Social Security. The 1983 Social Security Amendment withdrew the ability to opt out of Social Security. Effective April 29, 1983, government entities could adopt Social Security coverage at any point but could no longer terminate Social Security coverage for their employees. Once in the system the coverage group would always be in the system (Nuschler, Shelton, & Topoleski, 2011). State and local governments had to decide early in the policy adoption process whether to be committed to Social Security since coverage could no longer be terminated.

Only one state, Alaska, chose to withdraw from Social Security. Alaska terminated coverage effective December 31, 1979 before the legislation passed prohibiting withdrawal (Social Security Administration, 2013). Several local entities, however, did terminate coverage in response to anticipated passage of the Social Security Amendment of 1983 (Jeffers, August 27, 1982). In a letter dated August 27, 1982 from James S. Jeffers, Associate Commissioner for Governmental Affairs of the U.S. Department of Health and Human Services, it was noted that ñWidespread activity and interest continues concerning the potential termination of State and local groups and nonprofit organizationsò (Jeffers, August 27, 1982). According to the document from Jeffers, in 1982 the year before entities could no longer terminate, 444 local entities representing 217,690 employees were pending termination from Social Security coverage. At that time, there were 12,696,000 state and local employees and 9,376,000 were covered by Social Security (Jeffers, August 27, 1982). The number terminating represented only 2% of the state and local government population. This change in the coverage did not appear to be detrimental to the state and local government employee community.

The City of San Jose, California terminated coverage on June 30, 1975. An actuarial study was developed on behalf of the Social Security Administration (Order No. 0413-76T-0947) by a professor of Actuarial Science at Temple University in Philadelphia, Pennsylvania after the termination. The study found the following:

> *It has been widely asserted that both the employees and the City of San Jose profited significantly by terminating Social Security coverage and then liberalizing the previously-existing complementary retirement system. The facts do not bear out these assertions….There is considerable doubt that the cost of the pension plan that has replaced the combination of Social Security and the former complementary plan will be anywhere near as low as estimated by the City Actuary. The effect…may well cost the City of San Jose far more than is currently estimated….[A]ny analyses of the financial advantages or disadvantages of termination of Social Security coverage, either for individuals or for groups, are really impossible of precision. So many factors are involved that are not possible of accurate prediction….In any event, it is my opinion that, in virtually every case, any real profit involved in termination of Social Security coverage will be relatively small if the analysis made thereof is proper, consistent, and accurate.* (Social Security Administration, 1977, pp. 5-9).

From 1975 to 1982 there were 606 entities that terminated coverage (including the State of Alaska) affecting 143,067 state and local employees. The number of pending terminations from 1982-1984 were 444 entities affecting 217,690 employees. Fifty-five percent of these entities were from four states: Georgia, California, Texas, and Washington. This amount was substantial considering the prior statistics. From 1975 to 1982, there were 5,193 entities representing 114,416 employees that chose to adopt Social Security (Jeffers, August 27, 1982). There appears to be some increase in terminations; however, the number of entities that chose to adopt Social Security even though they would not be able to terminate in the future far outweighs the number that terminated.

Title XIII, Subtitle B of ñ[t]he Consolidated Omnibus Budget and Reconciliation Act (COBRA), became law in April 1986. This law provides that governmental employees, both state and contract employees, hired after March 31, 1986, are entitled to participate in Medicare health insurance coverage and are required to contribute the Medicare portion of the FICA taxò (The Commonwealth of Massachusetts Office of the Comptroller, 2006, p. 1). Enacted as Public Law 99-272, the provision applies the Medicare tax to all newly hired state and local government employees effective April 1, 1986 (Public Law 99-272, 1999). Medicare was now mandated on all state and local government employees hired after April 1, 1986. States did not appear to challenge mandatory Medicare, possibly because it was considered an insurance premium designed to help the aging population (Social Security Administration, 2013). This change provided the fiscal mechanism and feasibility to apply mandatory Social Security.

Next came the further mandating of Social Security coverage for state and local government employees. The Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508) extended mandatory Social Security coverage to employees of state and local government that were not covered by a state or locally established pension plan (Kollmann, 2000). The only group not covered at this point was state and local government employees that were covered by a pension plan equivalent to or better than Social Security.

The period of the 1980s ï 1990s saw tremendous changes in the Social Security coverage laws for state and local governments as well as the federal governments. Between the 1960s ï 1970s period analyzed earlier and this period, there were changes to the Social Security coverage of these groups. Using the external, internal and policy specific factors analyzed in the previous period, this research attempts to identify which variables led state and local governments to adopt Social Security 218 coverage for their employees during this period. The research also provides information as to whether there were more significant changes possible because of the recent legislative action regarding state and local Social Security coverage.

The specific year of 1982 is used to help identify whether the termination conditions of the 1983 amendment had an impact on states changing their coverage. Since states could not terminate after April 20, 1983, the U.S. Census information available for 1982 should provide any changes that were made because of this pending legislation. States would have had to file for and Social Security Administration approve the termination by April 19, 1983 to take advantage of the termination.

External Political Factors

Many external political factors began affecting state and local government Social Security policy adoption during this era. This time period brought changes to state and local government Social Security policy including no longer being able to terminate coverage, mandatory Medicare and mandatory Social Security for those state and local government employees that are not covered by a Social Security equivalent state or local government pension plan. These issues along with the factors identified earlier were analyzed to provide information as to why a state or local government did not provide Social Security coverage for their employees.

Economy of the Nation. During the 1980s ï 1990s, the nation was inundated with several events that negatively affected the economy. The economy was somewhat stronger in the late 1970s after having come through a 16 month recession in the mid 1970s only to be hit with major recessionary activities in the early 1980s. The early 1980s saw a short recession from January 1980 ï July 1980. However, the economy was hit one year later with a major 16 month recession from July 1981 ï November 1982 (National Bureau of Economic Research, 2013). Oil prices also skyrocketed, contributing to this downturn in the economy. The mid 1980s made a rebound and the nation saw the longest period of sustained growth since World War II (The Economy in the 1980s).

There were several major changes to Social Security coverage for state and local government employees during this time. The Social Security Amendment of 1983 came shortly after the major recession of the early 1980s. As was seen in the 1950s, major changes to Social Security took place directly after a recession. This amendment provided that state and local governments no longer could terminate Social Security coverage for their employees and also required coverage for many federal and non-profit employees, notably the President, Vice President, members of Congress and Federal Judges. Effective April 1, 1986, state and local governments saw the mandating of Medicare on their employees.

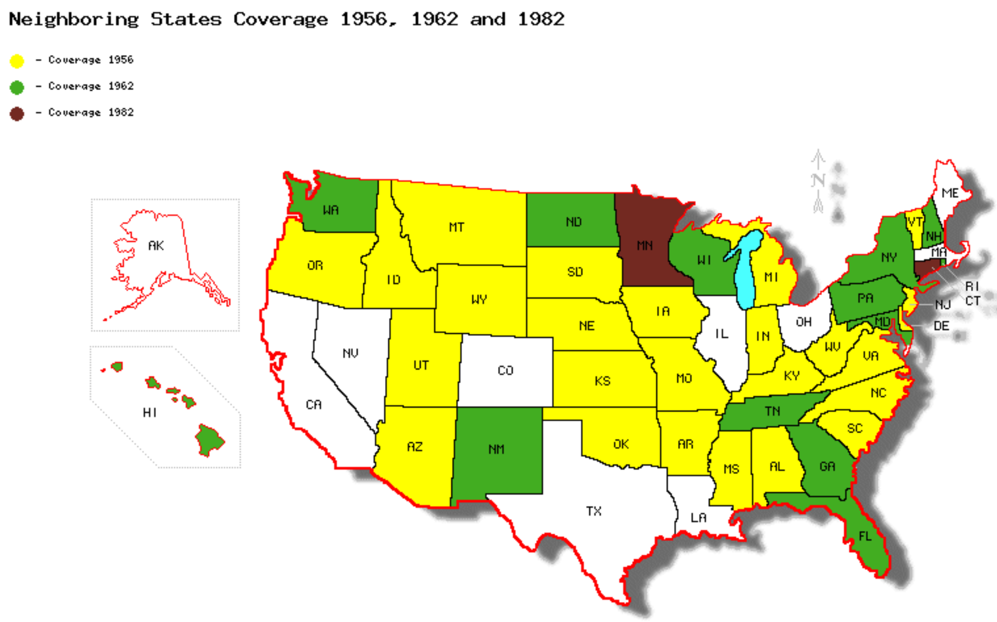
The 1990s saw similar activities. A major stock market crash in 1987 along with an increasing federal deficit came just before another recession from July 1990 to March 1991. After the recession, some aspects of the economy continued to struggle, such as the financial institutions, while the computer, aerospace and export industries showed continuing growth. Again, shortly have the recession the next major change to state and local government employee Social Security coverage takes place. On July 2, 1991, Social Security and Medicare became mandatory for state and local government employees not covered by a Social Security equivalent public retirement plan. In 1995, police officers and firefighters were extended the opportunity to participate in Social Security and Medicare. This was the last major reform to Social Security coverage for state and local government employees.

None of these changes were during periods of recession, however, they may have been influenced by previous recessionary times. These changes in the Social Security coverage policies may have led a state or local government to adopt coverage for their employees. The 1950s and 1960s saw major changes to Social Security directly after a recession as did the 1980s and 1990s. A continued longitudinal analysis over time will help identify whether the economy of the nation has had an effect on Social Security coverage.

Policy Adoption of Neighboring States. The neighboring states along with the identification of states covered for Social Security in 1982 will provide documentation of whether the neighboring states influenced the policy adoption during this period.

Figure 4-3 identifies those states in light gray as those where a majority of their employees were covered by Social Security in 1956. The states highlighted in medium gray represent those states that adopted coverage by 1962. Two states lowered their coverage by 1982. Texas, with only one border state (Louisiana) not covered by Social Security, decreased its coverage to below 50%. Alaska terminated its coverage in its entirety in 1979. The two states highlighted in dark gray, Minnesota and Connecticut, adopted coverage by 1982. All of Minnesotaǿs border states covered their employees with Social Security by at least 50%. Two of Connecticutǿs border states had 50% coverage while one did not. This analysis suggests that policy adoption of neighboring states, or diffusion of public policy, could be possible with Minnesota and Connecticut but probably not for Texas. Twenty-three states did not have Social Security coverage in 1956, ten did not have coverage in 1962, and nine states did not have coverage as of 1982. Diffusion may be part of the reason for the adoption of this policy but it appears that other factors prevent the remaining uncovered states from adopting the policy.

Figure 4-3 Neighboring States Coverage 1956, 1962 and 1982



Data compiled from
(U.S. Department of Commerce, Bureau of the Census, 1963; U.S. Department of Commerce Bureau of Census, 1957; U.S. Department of Commerce Bureau of the Census, 1982)

Internal State Factors

As the federalism and intergovernmental periods have changed into a conflictive state, the state and local governments are becoming more anxious about mandates that are coming forth. These changes may lead to a change in political climate for the state, which in turn may affect the activities related to state and local government Social Security policy adoption.

Political Subculture. As seen in the 1962 research, the traditionalistic states showed the strongest support for Social Security coverage. Of the 16 traditionalistic states, 14 (or 88%) of these covered more than 50% of their employees with Social Security coverage. There was one state, Texas, which changed to less than 50% coverage decreasing the rate from 92% in 1962 to 88% in 1982. Other factors may have contributed to this change. Moralistic states accounted for 17 states of which 12 (or 82%) covered more than 50% of their employees with Social Security.

In comparison to 1962, one state, Minnesota, changed to greater than 50% coverage. The percentage increased from 76% to 82%. Last, there are 17 individualistic states and 11 (or 65%) covered their employees by more than 50%. In 1982, one state, Alaska, decreased its coverage to less than 50% changing the total percentage for individualistic states from 71% to 65%. As discussed earlier Alaska terminated coverage in 1979. This information still suggests that traditionalistic states are more likely to adopt Social Security coverage than either moralistic or individualistic. However, the percentage of traditionalist and individualist states decreased in coverage by 4% and 6% respectively while the moralistic states increased by 6%. The percentage seems to be coming closer together rather than further apart suggesting that the subculture does not have an effect on whether a state chooses Social Security coverage for their employees.

Table 4-11 Political Subculture Compared to Social Security Coverage 1982

Highlighted fields are changes from 1962 to 1982

POLITICAL SUBCULTURE			Percent of Social Security coverage in 1982	Total Coverage Count	Percentage
Individualistic States					
	Less than 50% Social Security Coverage			6	35%
		ALASKA	32		
		CONNECTICUT	58		
		ILLINOIS	33		
		MASSACHUSETTS	2		
		NEVADA	4		
		OHIO	1		
	More than 50% Social Security Coverage			11	65%
		DELAWARE	77		
		HAWAII	91		
		INDIANA	70		
		MARYLAND	83		
		MISSOURI	60		
		NEBRASKA	82		
		NEW JERSEY	66		
		NEW YORK	59		
		PENNSYLVANIA	77		
		RHODE ISLAND	76		
		WYOMING	78		
Total Individualistic States				17	100%
Moralistic States					
	Less than 50% Social Security Coverage			3	18%
		CALIFORNIA	41		
		COLORADO	20		
		MAINE	24		
	More than 50% Social Security Coverage			14	82%
		IDAHO	84		
		IOWA	85		
		KANSAS	82		
		MICHIGAN	65		
		MINNESOTA	62		
		MONTANA	72		
		NEW HAMPSHIRE	74		
		NORTH DAKOTA	56		
		OREGON	78		
		SOUTH DAKOTA	67		
		UTAH	79		
		VERMONT	65		
		WASHINGTON	86		
		WISCONSIN	69		
Total Moralistic States				17	100%
Traditionalistic States					
	Less than 50% Social Security Coverage			2	13%
		LOUISIANA	10		
		TEXAS	43		
	More than 50% Social Security Coverage			14	88%
		ALABAMA	80		
		ARIZONA	82		
		ARKANSAS	77		
		FLORIDA	79		
		GEORGIA	72		
		KENTUCKY	57		
		MISSISSIPPI	72		
		NEW MEXICO	65		
		NORTH CAROLINA	82		
		OKLAHOMA	72		
		SOUTH CAROLINA	82		
		TENNESSEE	64		
		VIRGINIA	90		
		WEST VIRGINIA	83		
Total Traditionalistic States				16	100%

Data compiled from

(Riley, 2013; U.S. Department of Commerce Bureau of the Census, 1982; Elazar, 1984)

Political Ideology. In 1962, 21 states were considered conservative and 29 states were consider to be liberal. By 1982, the Berry et al. (2010) numbers had changed to 26 conservative states and 24 liberal states with 14 states changing their political ideology over the last 20 years. According to the 1982 numbers, 20 of the 26 conservative states, or 77%, chose to adopt coverage for their employees. This is in contrast to 20 of the 24 liberal states, or 83%, that chose to adopt coverage for their employees. This number did a complete turnaround from 1962. In 1962, conservative coverage was 90% compared to 72% coverage for the liberal states. Now more of the liberal states adopted coverage for their employees. With the change from more conservatives having coverage in 1962 compared to more liberals having coverage in 1982, this research would suggest that political ideology does not affect whether a state chooses to cover its employees with Social Security.

Table 4-12 Political Ideology Comparison to Social Security Coverage 1982

Highlighted fields are changes from 1962 to 1982

Political Ideology	State	Percent of Social Security coverage in 1962	Total Coverage Count	Percentage
Conservative State				
Less than 50% Social Security Coverage			6	23%
	ALASKA	32		
	CALIFORNIA	41		
	COLORADO	20		
	LOUISIANA	10		
	NEVADA	4		
	TEXAS	43		
More than 50% Social Security Coverage			20	77%
	ALABAMA	80		
	ARIZONA	82		
	ARKANSAS	77		
	FLORIDA	79		
	GEORGIA	72		
	IDAHO	84		
	KANSAS	82		
	MISSISSIPPI	72		
	MISSOURI	60		
	NEBRASKA	82		
	NEW HAMPSHIRE	74		
	NEW MEXICO	65		
	NORTH CAROLINA	82		
	OKLAHOMA	72		
	SOUTH CAROLINA	82		
	SOUTH DAKOTA	67		
	TENNESSEE	64		
	UTAH	79		
	VIRGINIA	90		
	WYOMING	78		
Total Conservative States			26	100%
Liberal States				
Less than 50% Social Security Coverage			4	17%
	ILLINOIS	33		
	MAINE	24		
	MASSACHUSETTS	2		
	OHIO	1		
More than 50% Social Security Coverage			20	83%
	CONNECTICUT	58		
	DELAWARE	77		
	HAWAII	91		
	INDIANA	70		
	IOWA	85		
	KENTUCKY	57		
	MARYLAND	83		
	MICHIGAN	65		
	MINNESOTA	62		
	MONTANA	72		
	NEW JERSEY	66		
	NEW YORK	59		
	NORTH DAKOTA	56		
	OREGON	78		
	PENNSYLVANIA	77		
	RHODE ISLAND	76		
	VERMONT	65		
	WASHINGTON	86		
	WEST VIRGINIA	83		
	WISCONSIN	69		
Total Liberal States			24	100%

Data compiled from

(Berry, Fording, Ringquist, Hanson, & Klarner, 2010; U.S. Department of Commerce Bureau of the Census, 1982)

Specific Policy Factors

State and local government Social Security policy has changed tremendously since the enactment in 1951. State and local government pensions and employee structure have changed as well. Now all states have a pension plan to support their employees and many of the local governments either participate in these state plans or have created their own pension plans. Deciding to cover their employees with both a pension plan and Social Security will increase their payout in the form of increased contributions to Social Security or decrease the contributions to the pension to cover the amount. The fiscal health of their pension plan as well as the size of the population and salaries of the government employees make effect the decision on whether to adopt Social Security coverage or not.

State and Local Government Specific Fiscal Determinants

Pension Plan Member/Beneficiary Ratio. The ratio of active members to beneficiaries was obtained from the 1982 Census of Governments. Table 4-13 below shows the comparison of this ratio for both the state and local governments that provide more than 50% Social Security coverage for their employees as well as those that provide less than 50% Social Security coverage for their employees. The trends of the two groups are opposite. At the 3.00 ï 4.00 range, the state and local governments that provide more than 50% coverage peaked whereas the state and local governments that provide less than 50% coverage dropped. At the 4.00 ï 5.00 range, the greater than 50% coverage states dropped and the less than 50% coverage states had a slight peak. The trend finishes out with the a decline starting in the 5.00 ï 6.00 range for the greater then 50% coverage states and an increase in the number of states with less than 50% coverage.

This is very different from what we saw in 1962. In 1962, both groups peaked between 5 ï 10 active members per beneficiary and then decline as the ratio of active members to beneficiaries becomes higher. The results for 1982 are entirely different. At the lowest ratio there is less coverage, then a peak for coverage at the 3.00 -4.00 range, then a dip in coverage again at the 4.00 ï 5.00 range, another peak at the 5.00 ï 6.00 range and finally a dip in coverage at the highest range, 6 or greater.

This suggests that at the lower ratio of active members to beneficiaries, state and local governments are less likely to cover their employees with Social Security. There is activity in the middle where states are choosing to cover their employees; however, at the highest ratio the more than 50% coverage states declines dramatically while the less than 50% coverage states increase. This suggests that at certain levels of active members to beneficiaries, state and local governments may choose to cover their employees. Further analysis will need to be done to determine if there is support for this ratio.

Table 4-13 State and Local Pension Plan Ratio of Active Members to Beneficiares 1982

1982 Ratio of Active Members to Beneficiaries all States

Ratio of Active Members to Beneficiaries	States with More than 50% Social Security coverage	Percentage	States with Less than 50% Social Security coverage	Percentage
Less than 3	6	15%	4	40%
3-4	17	43%	1	10%
4-5	6	15%	2	20%
5-6	10	25%	0	0%
6 or Greater	1	3%	3	30%
	40		10	

Data compiled from
(U.S. Department of Commerce Bureau of the Census, 1982)

Plan Market Assets to Benefit Payments Ratio. The pension plan market assets, identified as Cash and Security holdings, and the total benefit payments were obtained from the 1982

Census of Governments. Table 4-14 below shows the comparison of this ratio for both the States that provide more than 50% Social Security coverage for their employees as well as those that provide less than 50% Social Security coverage for their employees. Both coverage groups have similar trends. They both peak at the 10 - 20 range and level out as the range becomes greater. This analysis suggests the same results as the 1962 data. The ratio of Market Plan Assets to Beneficiary Payments does not have an effect on whether the states chose to cover their employees for Social Security.

Table 4-14 Market Assets to Beneficiary Payments Ratio1982

1982 Ratio of Plan Market Assets to Beneficiary Payments all States

Ratio of Plan Market Assets to Beneficiary Payments	States with More than 50% Social Secuirty coverage	Percentage	States with Less than 50% Social Security coverage	Percentage
Less than 10	2	5%	3	30%
10 - 20	22	55%	4	40%
20 - 30	12	30%	3	30%
30 - 40	3	8%	0	0%
40 or Greater	1	3%	0	0%
	40		10	

Data compiled from

(U.S. Department of Commerce Bureau of the Census, 1982)

State and Local Government Specific Socio-Economic Determinants

State and Local Government Employee Population. States with larger populations of public employees would most likely pay out larger dollar volumes of contributions than those of smaller populations of employees. A smaller population of employees may not have a significant effect on the financial stability of the state or local government. Table 4-15 below shows the comparison of the 1982 population of state and local government employees as a percentage of total state population for both the states that provide more than 50% Social Security coverage for their employees as well as those that provide less than 50% Social Security coverage for their employees. These trends are different from what we saw in 1962.

In 1962, both groups started low at the less than 2.75% range with a rise at the 2.75% - 3.00%. As the population increased, the less than 50% coverage states decreased and the greater than 50% coverage states increased. The more than 50% coverage group peaked at the 3.25% - 3.50% range and began to fall with greater population. The less than 50% coverage group decreased at the 3.25% - 3.50 range and then had a slight increase before decreasing again.

The 1982 trend shows that the two groups have similar trends up to the 4.00% - 4.50% percentage range. After that, as the population percentage rises, the number of states with less than 50% coverage declines, and the number of states with more than 50% coverage increases up until a mid point. This analysis suggests that the size of the population of state and local government employees might have an effect on whether the states chose to cover their employees for Social Security. Since the 1962, the data showed a similar picture, it appears that as the size of the population increases, up to a mid point, that more employees are covered by Social Security.

Table 4-15 State and Local Employee Population Percent of Total State Population 1982

State and Local Employees as a Percentage of Total Population	States with More than 50% Social Security Coverage	Percentage	States with Less than 50% Social Security Coverage	Percentage
Less than 4.00%	1	0.025	0	0
4.00% - 4.50%	8	20%	5	50%
4.50% - 5.00%	20	50%	3	30%
5.00% - 5.50%	7	18%	1	10%
5.50% - 6.00%	3	8%	0	0%
6.00% or Greater	1	3%	1	10%
	40		10	

Data compiled from

(U.S. Department of Commerce Bureau of the Census, 1982)

State and Local Government Employees Average Salaries. Table 4-16 below shows the comparison of the 1982 average salaries of state and local government employees for both the states that provide more than 50% Social Security coverage for their employees as well as those that provide less than 50% Social Security coverage for their employees.

The 1962 data trend suggested that after a peak in the low salary range the number of states that cover more than 50% of their employees are less likely to cover their employees as the salary increases. The 1982 data suggests the same for this group. In 1962, the less than 50% coverage group increased as the salaries increase up to a higher salary range then dipped before rising again. The 1982 data shows the less than 50% coverage states remaining constant with a slight dip at $1,750 - $2,000 range and no rise after that. The trend comparing 1962 to 1982 suggests that the average salary of state and local employees has an effect on whether the states choose to cover their employees for Social Security. Further analysis will need to be performed to identify a relationship.

Table 4-16 State and Local Government Average Monthly Salary 1982

Average Monthly Salary of State and Local Government Employees	States with More than 50% Social Security Coverage	Percentage	States with Less than 50% Social Security Coverage	Percentage
Less than $1,250	3	8%	0	0%
$1,250 - $1,500	19	48%	3	30%
$1,500 - $1,750	14	35%	3	30%
$1,750 - $2,000	4	10%	3	30%
$2,000 or Greater	0	0%	1	10%
	40		10	

Data compiled from

(U.S. Department of Commerce Bureau of the Census, 1982)

Results from 1980s – 1990s

The 1980s ï 1990s was a period when activity related to mandating Social Security became prominent. Many reports and studies were done to analyze the feasibility of mandating Social Security. Medicare became mandatory during this time and opened the door for enacting mandatory Social Security. Now state and local governments were unable to terminate coverage. Once the covered group of employees was included in Social Security the group could not withdraw.

In 1982, just over thirty years after the passage of Section 218, the average state and local coverage of eligible employees was down from 72% in 1962 to 63% in 1982. This may have been a result of no longer having the ability to terminate coverage. There were still only 10 states that did not provide Social Security coverage to at least 50% of their employees. The makeup of the 10 did, however, change. Alaska dropped from 69% to 32% coverage and Texas dropped from 59% to 43% coverage. Connecticut increased their coverage from 46% to 58% and Minnesota increased their coverage from 43% to 62%. The following results were found for this period:

Table 4-17 Results from 1982

Factor	Effect
Neighboring States	Undetermined
Political Subculture	Remained the same Traditionalistic States choose Social Security
Political Ideology	Changed Liberal States choose Social Security

Pension plan members	Changed Mid range did not choose coverage
Pension plan funding	No Change No Effect
Population of employees	No change More coverage in the mid range of population
Average Salaries of employees	No change More coverage in the lower range of salaries

There was very little change in Social Security coverage for state and local government employees with the exception of Alaska and Texas decreasing coverage and Connecticut and Minnesota increasing coverage. The issues of mandating Social Security for ALL state and local government employees was being pushed regularly. The state and local governments, however, were pushing back with violations of the Tenth Amendment as their stronghold.

Time Period of 2000s

By the 1980s ï 1990s, state and local governments could no longer terminate Social Security coverage and Medicare had become mandatory for new hires. Discussion related to mandatory Social Security was on the rise.

Around the turn of the 21st century, more emphasis was placed on the effects that Social Security has on public pensions. In 1997, Zorn referenced the larger pension benefits for state and local governments as being offsets for the lack of participation in the Social Security program. Although these plans do not typically include Social Security in their benefit plan formulas, they generally offer higher annual benefit percentage to those not covered as compared to those who are covered by Social Security (Zorn, 1997). This suggests that those states that do not cover their employees with Social Security may be providing the same benefits through the retirement system that would be provided through the federal Social Security program.

In August 1998, the GAO report discussing the implication of mandatory Social Security on state and local government employees recognized that the requirement for states to pay the Social Security contributions could reduce the contributions to the statesô pension plan. This would reduce the employeesô pension plan benefits as well as reduce the funding mechanism for the pension plan (Fagnoni, 1998).

The May 1999 Segal Company report detailed the many scenarios available as a means of dealing with mandatory Social Security and the financial impacts of each scenario. The report concluded that mandatory Social Security is not a solution to the Social Security systemôs solvency. The increased payroll cost to the public employers and employees of $25 billion for the first five years was adjusted to $44 billion in 2005. The change would extend the trust fundôs solvency by only two years (The Segal Company, 1999; The Segal Company, 2005).

As stated earlier then-Senator Barack Obama and 10 others sent a letter to the Senate Finance Committee opposing mandatory Social Security (Coalition to Preserve Retirement Security, 2008).

The NEA voiced their opposition to mandatory Social Security coverage because of the financial burdens for state and local governments, the weakening of pension plans and the effect that these changes would have on hiring, cost of living and other benefits (National Education Associaton, 2013).

In 2007, Representatives Becerra and Neal recognized that mandating Social Security coverage would cause harm to existing public pension funds. They were awarded for their efforts to defend the rights of public employees, especially police and firefighters, to join Social Security (Coalition to Preserve Retirement Security, 2007).

The GAO investigated the problems with Social Security Section 218 reporting in 2010. The research indicated that total annual salary for state and local government employees comes to more than $741 billion. Twenty-nine percent of these employees were non-covered, amounting to more than $213 billion (Government Accountability Office, 2010). Both reports contain similar data. If the 28% - 29% who do not pay Social Security were required to pay the 12.4% Social Security tax (6.2% for both employer and employee), that would amount to approximately $26 billion dollars in Social Security payments. Half of this amount, or $13 billion would come from the budgets of the states or local governments.

The National Commission on Fiscal Responsibility and Reform established on February 18, 2010, addressed several reform options for Social Security. One of these reform options was the coverage of state and local government employment (Goss, 2010).

The 2012 presidential candidate questionnaire from the Fraternal Order of Police also addressed mandating Social Security for state and local governments. Both partiesô candidates suggested that they were opposed to mandating Social Security for state and local government employees. The topic, however, continues to be brought to the spotlight of the political forces of this country.

The 1960s ï 1970s and the 1980s ï 1990s time period analyzed earlier saw legislation passed to protect and provide for those employees that did not have any retirement coverage. The turn of the century saw a hard push for mandating Social Security to those employees already covered by either a state or local retirement plan and/or a Social Security 218 modification voluntarily excluding them from coverage.

Using the external, internal and policy specific factors analyzed in the previous periods, this period also was analyzed to help identify which variables lead a state to adopt Social Security 218 coverage for their employees during this period. The latest year available that provides information related to Social Security coverage for state and local government employees is 2007. The GAO did extensive research in 2010 related to the Social Security coverage of state and local governments after several issues with coverage groups was identified. Their research included an estimate of coverage for state and local governments by state for 2007. The states have not changed dramatically since 1982. Those states that covered more than 50% of their employees continue to cover that amount as well as those state that covered less than 50% of their employees still are below 50%. Some states changed within these ranges. Generally, the percentages increased but remained in their coverage group.

External Political Factors

The issue of mandatory Social Security for state and local government employees was continuing to be brought to the attention of administrators at all levels of government. The issue now was not only a Tenth Amendment issue but also an issue of the effects of mandatory Social Security on public pension. Many public pension plans were struggling to keep up with the rising amount of beneficiary payments in comparison to the number of active members. These issues as well as the factors previously discussed influence the decision making process of state and local government employers.

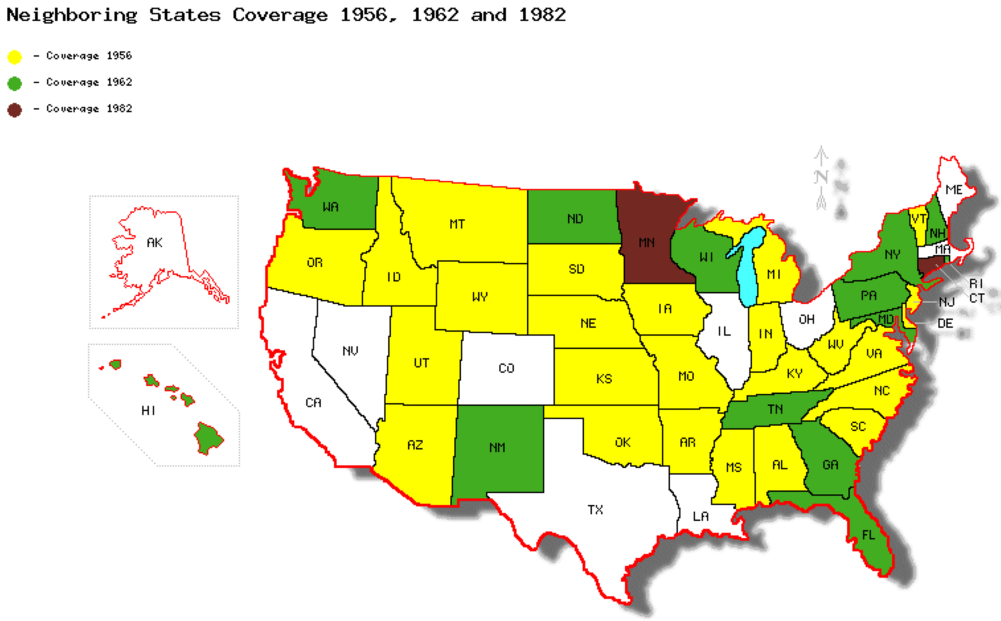
Economy of the Nation. The nation had its longest economic expansion, 10 years, leading up to the recession of March thru November 2001 (National Bureau of Economic Research, 2013). This was a short-lived recession possible caused by the collapse of many of the internet companies and culminating with the 911 terrorist attacks. The climb back out of the recession was relatively slow and the economy stayed somewhat stable over the next few years. As was seen in the early 1980s, the short recession of 2001 was followed by a major recession lasting 18 months, from December 2007 thru June 2009 (National Bureau of Economic Research, 2013).

Although there were no legislative changes during this time, there was a lot of activity in Congress shortly after the major recession related to mandatory Social Security coverage. In November 2010, the Domenici-Rivlin report recommended Social Security coverage to all newly hired state and local government as well as the Congressional Research Service in January 2011, the Business Roundtable report in January 2013 and the Joint Committee on Taxation in May 2013. Similar to what was seen in the other time periods, shortly after a recession, major changes to the state and local government employeesô Social Security coverage were being analyzed.

Again, none of these discussions were during periods of recession, however, they may have been influenced by the previous recessionary times. These changes in the Social Security coverage policies may have led a state or local government to adopt coverage for their employees. The 1950s and 1960s saw major changes to Social Security directly after a recession as did the 1980s and 1990s and deep discussion in the 2000s. The longitudinal analysis over time suggests that there is a link between the recessions and Social Security changes for state and local government employees. The changes in the coverage aspects of the state and local government employees may have an effect on the population of covered state and local government employees. Other factors such as internal state factors and specific policy factors may also affect the coverage of state and local government employees.

Policy Adoption of Neighboring States. There were no substantial changes in coverage for states from 1982 to 2007. Figure 4-4 shown below identifies those states where a majority of state and local government employees were covered in 1956, 1962 and 1982. The two darkest states, Minnesota and Connecticut, adopted coverage by 1982. Even though some states changed slightly, none of the states went from covering more than 50% of their employees with Social Security to covering less than 50% of their employees with Social Security or vice versa. Diffusion may be part of the reason for the adoption of this policy, but it appears that other factors prevent the remaining uncovered states from adopting the policy.

Figure 4-4 Neighboring States Coverage Remains the Same in 2007



Data compiled from

(U.S. Department of Commerce Bureau of Census, 1957; U.S. Department of Commerce Bureau of the Census, 1962; U.S. Department of Commerce Bureau of the Census, 1982)

Internal State Factors

The policy adoption of neighboring states does not appear to affect the policy adoption for state and local government employee Social Security coverage but the economy may have an effect. Other factors need to be analyzed. Even though the internal state factors of political subculture and political ideology did not change much over the three time periods, these factors affect the policy adoption process.

Political Subculture. The results from 2007 were the same as the results from 1982. The traditionalistic states showed the strongest support for Social Security coverage. Of the 16 traditionalistic states, 14 (or 88%) of these covered more than 50% of their employees with

Social Security coverage. Moralistic states accounted for 17 states of which 12 (or 82%) covered more than 50% of their employees with Social Security. Lastly there are 17 individualistic states and 11 (or 65%) covered their employees by more than 50%. This information still suggests that traditionalistic states are more likely to adopt Social Security coverage than either moralistic or individualistic.

Political Ideology. The changes to political ideology for states were drastic from 1982 to 2007. In 1982, there were 26 conservative states and 24 liberal states. By 2007, that amount changed dramatically. Fifteen states changed their political ideology from conservative to liberal and no state changed from liberal to conservative. In 2007, there were 11 conservative states and 10 (91%) chose to adopt Social Security coverage for at least half of their employees and 39 liberal states where 30 (77%) chose to adopt Social Security coverage for at least half of their employees. This number changed from 1982 where 77% of the conservative states and 83% of the liberal states chose to adopt coverage for more than half of their employees. The 2007 results were more consistent to what was seen in 1962. Conservative states were again more likely to cover their employees with Social Security than the liberal states. With the consistency of more conservatives having coverage in 1962 and 2007, this research would suggest that political ideology might affect whether a state chooses to cover their employees with Social Security.

Table 4-18 Political Ideology comparison to Social Security Coverage 2007

Highlighted fields are changes from 1982 to 2007

Political Ideology	State	Percent of Social Security coverage in 1962	Total Coverage Count	Percentage
Conservative State				
Less than 50% Social Security Coverage			1	9%
	LOUISIANA	17		
More than 50% Social Security Coverage			10	91%
	ALABAMA	97		
	GEORGIA	75		
	IDAHO	98		
	KANSAS	96		
	MISSISSIPPI	97		
	NEBRASKA	91		
	OKLAHOMA	92		
	SOUTH CAROLINA	98		
	UTAH	94		
	WYOMING	97		
Total Conservative States			11	100%
Liberal States				
Less than 50% Social Security Coverage			9	23%
	ALASKA	42		
	CALIFORNIA	40		
	COLORADO	30		
	ILLINOIS	36		
	MAINE	36		
	MASSACHUSETTS	3		
	NEVADA	4		
	OHIO	1		
	TEXAS	47		
More than 50% Social Security Coverage			30	77%
	ARIZONA	92		
	ARKANSAS	94		
	CONNECTICUT	55		
	DELAWARE	92		
	FLORIDA	95		
	HAWAII	83		
	INDIANA	92		
	IOWA	96		
	KENTUCKY	67		
	MARYLAND	93		
	MICHIGAN	95		
	MINNESOTA	93		
	MISSOURI	65		
	MONTANA	95		
	NEW HAMPSHIRE	84		
	NEW JERSEY	91		
	NEW MEXICO	93		
	NEW YORK	99		
	NORTH CAROLINA	98		
	NORTH DAKOTA	95		
	OREGON	97		
	PENNSYLVANIA	93		
	RHODE ISLAND	77		
	SOUTH DAKOTA	98		
	TENNESSEE	91		
	VERMONT	99		
	VIRGINIA	98		
	WASHINGTON	91		
	WEST VIRGINIA	95		
	WISCONSIN	96		
Total Liberal States			39	100%

Data compiled from

(Government Accountability Office, 2010; Berry, Fording, Ringquist, Hanson, & Klarner, 2010)

Specific Policy Factors

By the 2000s, many of the public pension funds were in fiscal distress. Many states and local governments were beginning to look at defined contribution plans rather than the traditional defined benefit plans to handle the increasing benefits payments. State and local governments were also beginning to contract out more services thus requiring fewer employees. This decreases the number of active employees that will need pension benefits in the future but also decreases current contributions to support current beneficiaries. The financial effects of these factors could help state and local governments in their decision making process related to adoption of Social Security coverage for their employees.

State and Local Government Specific Fiscal Determinants

Pension Plan Member/Beneficiary Ratio. With the exception of a slight rise at the 2.50 ï 3.00 range for the states that provide less than 50% coverage both groups on Table 4-19 have similar trends up to the ratio of 3.00 ï 3.50 active members to beneficiaries. At this point, the higher number of active members to beneficiaries is more consistent with states that have a greater Social Security coverage percentage. This is the opposite of what we saw in 1982. In 1982, the higher ratio was seen as increasing for those states that provide less than 50% coverage to their state and local government employees. Because of the inconsistency between the two years at the higher ratio, there is no evidence that active members to beneficiaries affects whether a state chooses Social Security coverage for their employees.

Table 4-19 State and Local Pension Plan Ratio of Active Members to Beneficiaries 2007

2007 Ratio of Active Members to Beneficiaries all States

Ratio of Active Members to Beneficiaries	States with More than 50% Social Security coverage	Percentage	States with Less than 50% Social Security coverage	Percentage
1.00-1.50	4	10%	1	10%
1.50-2.00	16	40%	6	60%
2.00-2.50	14	35%	1	10%
2.50-3.00	5	13%	2	20%
3.00-3.50	0	0%	0	0%
3.50-4.00	1	3%	0	0%
	40		10	

Data compiled from

(Government Accountability Office, 2010) (U.S. Department of Commerce U.S. Census Bureau, 2007)

Plan Market Assets to Benefit Payments. The pension plan market assets, identified as Cash and Security holdings, and the total benefit payments were obtained from the 2007 Census of Governments. Table 4-20 below shows the comparison of this ratio both for the states that provide more than 50% Social Security coverage for their employees and for those that provide less than 50% Social Security coverage for their employees. Both groups on the table have similar trends up to the 15-20 level. At the mid-point of a ratio of 20-25 assets to benefit payments, more employees are covered. As the ratio gets higher meaning more assets than benefit payments, less are covered. This analysis suggests that there might be a slight effect at the mid range. Further research with more years would have to be done to see if there is any relationship between the ratio of Market Plan Assets to Beneficiary Payments and Social Security coverage. Based on the longitudinal analysis over the three time periods there does not appear to be a relationship.

Table 4-20 Market Assets to Beneficiary Payments Ratio 2007

2007 Ratio of Plan Market Assets to Beneficiary Payments all States				
Ratio of Plan Market Assets to Beneficiary Payments	States with More than 50% Social Secuirty coverage	Percentage	States with Less than 50% Social Security coverage	Percentage
Less than 15	5	13%	2	20%
15-20	11	28%	4	40%
20-25	16	40%	2	20%
25-30	5	13%	2	20%
30 or Greater	3	8%	0	0%
	40		10	

Data compiled from

(Government Accountability Office, 2010; U.S. Department of Commerce U.S. Census Bureau, 2007)

State and Local Government Specific Socio-Economic Determinants

State and Local Government Employee Population. Table 4-21 below shows the comparison of the 2007 population of state and local government employees as a percentage of total state population for both the states that provide more than 50% Social Security coverage for their employees as well as those that provide less than 50% Social Security coverage for their employees. The 1982 data showed that at the lower percentages, there was less coverage and at the mid range population there was more coverage. The data of this year are almost identical suggesting that there is a relationship between Social Security coverage at the mid range of population. More state and local government employees at the mid range of the population are covered by Social Security.

Table 4-21 State and Local Employee Population Percent of Total State Population 2007

State and Local Employees as a Percentage of Total Population	States with More than 50% Social Security Coverage	Percentage	States with Less than 50% Social Security Coverage	Percentage
Less than 5.00%	5	13%	1	10%
5.00% - 5.50%	13	33%	5	50%
5.50% - 6.00%	12	30%	2	20%
6.00% - 6.50%	7	18%	1	10%
6.50% or 7.00%	2	5%	0	0%
7.00% or Greater	1	3%	1	10%
	40		10	

Data compiled from

(Government Accountability Office, 2010; U.S. Department of Commerce U.S. Census Bureau, 2007)

State and Local Government Employees Average Salaries. Table 4-22 below shows the comparison of the 2007 average salaries of state and local government employees for both the states that provide more than 50% Social Security coverage for their employees as well as those that provide less than 50% Social Security coverage for their employees. The 2007 data shows the two coverage groups as being almost identical until the $1,500 - $1,750 range. At this point, the less than 50% coverage is on the rise while the greater than 50% coverage is on a decline. This suggests that as the salaries increase state and local governments are less likely to cover their employees with Social Security.

Table 4-22 State and Local Government Average Monthly Salary 2007

Average Monthly Salary of State and Local Government Employees	States with More than 50% Social Security Coverage	Percentage	States with Less than 50% Social Security Coverage	Percentage
Less than $3,000	4	10%	0	0%
$3,000 - $3,500	18	45%	3	30%
$3,500 - $4,000	9	23%	2	20%
$4,000 - $4,500	6	15%	4	40%
$4,500 or Greater	3	8%	1	10%
	40		10	

Data compiled from

(Government Accountability Office, 2010; U.S. Department of Commerce U.S. Census Bureau, 2007)

Results from 2000s. The 2000s were a period with no legislative action but numerous studies and reports concerning the effects of mandatory Social Security. There was a more concerted effort to analyze the effects of mandatory Social Security on public pension plans and on the protected groups such as public safety officers.

In 2007, the average state and local coverage of eligible employees was up from 72% in 1962 and 63% in 1982 to 78%. There are still only 10 states that did not provide Social Security coverage to at least 50% of their employees. The makeup of these 10 states is the same as in 1982. Very few changes in coverage have taken place since the mid 1980s. The following results were found for this period of time.

Table 4-23 Results from 2007

Factor	Effect
Neighboring States	Undetermined
Political Subculture	Remained the same Traditionalistic States chose Social Security
Political Ideology	Changed Conservative States chose Social Security
Pension plan members	Changed No effect
Pension plan funding	Changed Mid range ratio chose Social Security
Population of employees	No change More coverage in the mid range of population
Average Salaries of employees	No change More coverage in the lower range of salaries

Even though the changes in results were minimal during this time period, the continued research activity as well as issues identified by GAO could lead to increased activity related to mandatory Social Security. These factors may have influenced the decision making process of state and local government employers. Federal, state, and local government public administrators need to continue to use this research along with future research to identify why the remaining ten states chose not to cover their employees with Social Security before instituting mandatory Social Security.

Comparison of Issues Across All Time Periods

The previous sections of this chapter looked at the different time periods during which changes to the Social Security had a significant effect on state and local governments. The periods used were the 1950s ï 1960s, 1970s ï 1980s and the 2000s. Each of these periods offered changes and/or challenges to state and local government Social Security coverage. The 1950s ï 1960s was a period of major legislative changes in the Social Security Act. This period introduced voluntary Social Security coverage of state and local governmentôs employees to the state and local governments. By the 1970s ï 1980s major reforms to this coverage took place. Now state and local governments were required to pay Medicare premiums on their employees and mandatory Social Security was required for all state and local government employees that did not have a qualifying FICA-replacement retirement system. Into the 2000s, no major legislation has taken place but the inundation of legislative activity, including discussion in presidential debates and introduction of bills, suggests that the next major legislation is on the horizon.

External Political Factors

Economy of the Nation. Comparing these periods to the recession periods in U.S. history may provide a correlation to these major changes and activity related to Section 218 of the Social Security Act. The tables below provide the GDP rates for the periods 1923 ï 2009.

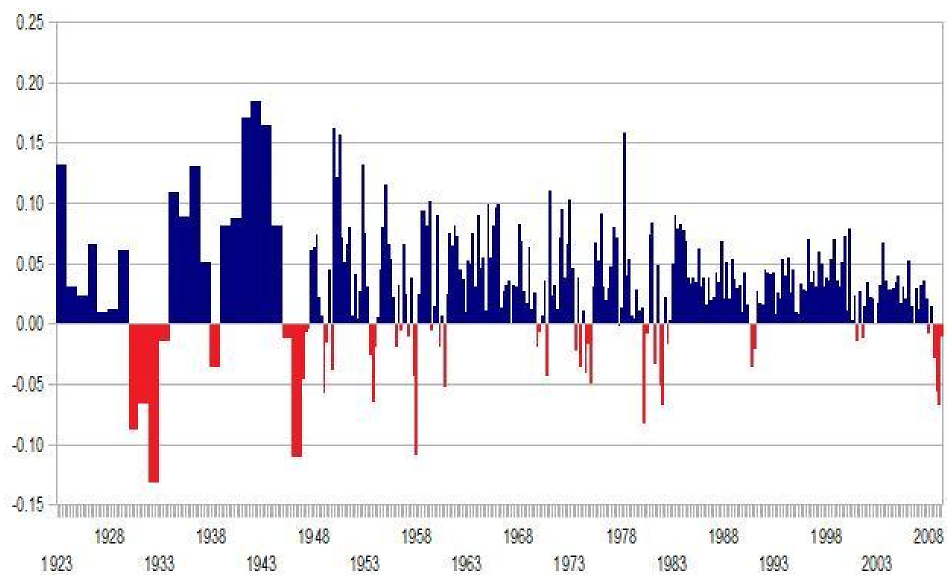
Table 4-24 National Bureau of Economic Research Recession Time Periods 1923 - 2009

July 1953 (II)	May 1954 (II)	10
August 1957 (III)	April 1958 (II)	8
April 1960 (II)	February 1961 (I)	10
December 1969 (IV)	November 1970 (IV)	11
November 1973 (IV)	March 1975 (I)	16
January 1980 (I)	July 1980 (III)	6
July 1981 (III)	November 1982 (IV)	16
July 1990 (III)	March 1991(I)	8
March 2001 (I)	November 2001 (IV)	8
December 2007 (IV)	June 2009 (II)	18

Data compiled from

(National Bureau of Economic Research, 2013)

Table 4-25 GDP from 1923 - 2009



(Henry, 2009)

In determining the recession periods in the United States, the National Bureau of Economic Research (NBER) defines a recession as ña significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail salesò (National Bureau of Economic Research, 2013). The NBER identifies the period of the recessions as starting at the peak of a business cycle and ending at the trough (National Bureau of Economic Research, 2013).

The major changes in Social Security legislation affecting state and local government employees may have been enacted in relation to major recession events. Section 218 of the Social Security Act was enacted on August 28, 1950 as part of the Social Security Amendments of 1950, less than one year after an 11-month recession ending October 1949 (Congressional Budget Office, 2013; National Bureau of Economic Research, 2013; Social Security Administration, 2013). This amendment allowed state and local government employees that were not covered under a retirement plan the option of being covered by Social Security.

The next major legislative change, the Social Security Amendment of 1954, was enacted on September 1, 1954. This amendment allowed state and local government employees that were covered under a retirement plan to also be covered by Social Security (Social Security Administration, 2013). This amendment came just three months after a10-month recession ending May 1954 (National Bureau of Economic Research, 2013).

Title XIII, Subtitle B of The Consolidated Omnibus Budget and Reconciliation Act (COBRA) was signed into law on April 7, 1986 (Social Security Administration, 2013). This law provides that governmental employees, both state and contract employees, hired after March 31, 1986, are entitled to participate in Medicare health insurance coverage and are required to contribute the Medicare portion of the FICA taxò (The Commonwealth of Massachusetts Office of the Comptroller, 2006). This law was not passed in association with a recession. The previous recession had ended on November 1982 and the next recession did not begin until July of 1990 (National Bureau of Economic Research, 2013). This suggests that the recessions did not have an effect on whether major legislation was a result of the economic condition of the United States.

The next major legislation, The Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508) was signed into law on November 5, 1990 during an eight-month long recession that lasted from July 1990 to March 1991 (Social Security Administration, 2013; National Bureau of Economic Research, 2013). This act extended mandatory Social Security coverage to employees of state and local government that were not covered by a state or locally established pension plan (Kollmann, 2000). This was the last major legislation that was passed to date related to Social Security coverage of state and local government employees.

Hypothesis one suggests that, during periods of recession, employees and employers are less likely to adopt Social Security coverage. The first two time periods analyzed had significant periods of recession. From 1982 to current time, there was very little change in coverage for the different state and local governments. This did not allow for an accurate testing of the hypothesis. During these different recession periods, major legislation was enacted as well. Therefore, the recession hypothesis is not supported because of the interaction of the legislative events at that time. The recession does, however, appear to have an impact on the federal legislation. All of the major legislative events related to the Social Security coverage of state and local government employees were passed shortly after or during a recession with the exception of COBRA. This suggests that during a recession federal, state and local policy makers are more inclined to pass legislation affecting the employees of these non-covered groups. The next sections will look at the previously researched variables across the three periods to see if there is a relationship between these variables and the cumulative effect across periods.

Policy Adoption of Neighboring States. A comparison of changes in coverage percentage over time shows that there were only a small number of states that have significantly changed the coverage percentage of their state and local government employees from 1962 to 2007. Fourteen states had a ten percent or higher change in their percentage of covered public employees. There was a significant amount of change in many of the states between 1962 and 1982. All but twelve states decreased their coverage by 1982. This could be attributed to the change in termination policy that went into effect in 1983. Effective April 20, 1983, state and local government entities could no longer terminate Social Security coverage. If their entity was covered by Social Security after that point then the entity would continue coverage for the life of the entity. Only one state, Alaska, chose to terminate coverage. However, many local governments, such as City of San Jose, CA discussed earlier, terminated coverage during this time (Social Security Administration, 1977). In this case, enactment of legislation had a major impact on whether states chose to continue or possibly initiate new Social Security coverage for state and local government employees.

By 2007, the changes that occurred in 1982 had vanished for the most part. The coverage percentages for 2007 were very similar to those originally seen in 1962. The fourteen states that saw major changes are highlighted in the table below. The policy adoption from neighboring states may have been evident early on but by 1982 there is no evidence of neighboring states influencing state and local government Social Security policy adoption decisions.

Table 4-26 Changes in Social Security Coverage 1962, 1982, and 2007

State	Percent of Social Security coverage in 1962	Percent of Social Security coverage in 1982	Percent Change from 1962 to 1982	Percent of Social Security coverage in 2007	Percent Change from 1962 to 2007	Percent Cumulative Change from 1962 to 2007
ALABAMA	95	80	-15	97	17	2
ALASKA	69	32	-37	42	11	-27
ARIZONA	96	82	-13	92	10	-4
ARKANSAS	93	77	-16	94	17	1
CALIFORNIA	30	41	11	40	-1	11
COLORADO	25	20	-6	30	10	5
CONNECTICUT	46	58	12	55	-3	9
DELAWARE	90	77	-13	92	15	2
FLORIDA	57	79	22	95	16	38
GEORGIA	70	72	2	75	3	5
HAWAII	82	91	9	83	-8	1
IDAHO	95	84	-12	98	14	3
ILLINOIS	21	33	12	36	3	15
INDIANA	90	70	-20	92	22	2
IOWA	95	85	-11	96	11	1
KANSAS	87	82	-4	96	14	10
KENTUCKY	59	57	-2	67	10	8
LOUISIANA	28	10	-18	17	7	-11
MAINE	23	24	1	36	12	13
MARYLAND	93	83	-9	93	10	1
MASSACHUSETTS	0	2	2	3	1	3
MICHIGAN	95	65	-30	95	30	0
MINNESOTA	43	62	18	93	31	50
MISSISSIPPI	92	72	-20	97	25	5
MISSOURI	69	60	-8	65	5	-4
MONTANA	91	72	-19	95	23	4
NEBRASKA	95	82	-13	91	10	-4
NEVADA	2	4	2	4	1	2
NEW HAMPSHIRE	89	74	-15	84	10	-5
NEW JERSEY	84	66	-18	91	25	7
NEW MEXICO	70	65	-5	93	28	23
NEW YORK	90	59	-32	99	41	9
NORTH CAROLINA	96	82	-15	98	16	2
NORTH DAKOTA	91	56	-34	95	39	4
OHIO	1	1	-1	1	1	0
OKLAHOMA	89	72	-17	92	20	3
OREGON	98	78	-21	97	19	-1
PENNSYLVANIA	81	77	-4	93	16	12
RHODE ISLAND	62	76	14	77	1	15
SOUTH CAROLINA	96	82	-14	98	16	2
SOUTH DAKOTA	97	67	-30	98	31	1
TENNESSEE	68	64	-3	91	27	23
TEXAS	59	43	-16	47	4	-12
UTAH	95	79	-17	94	15	-1
VERMONT	59	65	6	99	34	40
VIRGINIA	94	90	-4	98	8	4
WASHINGTON	93	86	-7	91	5	-2
WEST VIRGINIA	95	83	-12	95	12	0
WISCONSIN	89	69	-20	96	28	7
WYOMING	97	78	-20	97	20	0

Data compiled from

(U.S. Department of Commerce Bureau of the Census, 1962; U.S. Department of Commerce Bureau of the Census, 1982; Government Accountability Office, 2010)

Internal State Factors

Political Subculture. Comparing the political subculture across the years determines that by a slight margin traditionalistic states are more likely to participate in Social Security than either individualistic or moralistic. Hypothesis three stated that individualistic would be less likely to participate in Social Security coverage and, throughout the testing years, individualistic states covered the least amount. This suggests that Hypothesis three is supported in that individualistic states are less likely to participate in Social Security coverage for their state and local government employees.

Table 4-27 Political Subculture 1962, 1982, and 2007

	More than 50% Social Security Coverage and Traditionalistic	More than 50% Social Security Coverage and Individualistic	More than 50% Social Security Coverage and Moralistic
2007	88%	71%	82%
1982	88%	65%	82%
1962	94%	71%	76%

Data compiled from

(Riley, 2013; U.S. Department of Commerce Bureau of the Census, 1962; U.S. Department of Commerce Bureau of the Census, 1982; Government Accountability Office, 2010; Elazar, 1984)

Political Ideology. Comparing the political ideology across the years determines that there is no relationship between political ideology and coverage. During 1962 and 2007, conservative states were more likely to cover their employees with Social Security. In 1982, liberal states were more likely to cover their employees with Social Security. Hypothesis four stated that liberal states would be more likely to participate in Social Security. This was true for 1982, but not for 1962 and 2007. Hypothesis four cannot be determined. Because of the 1982 results, additional research would need to be performed to identify whether liberal states are more likely to participate in Social Security coverage for their state and local government employees.

Table 4-28 Political Ideology 1962, 1982, 2007

	More than 50% Social Security Coverage and Conservative	More than 50% Social Security Coverage and Liberal
2007	91%	77%
1982	77%	83%
1962	90%	72%

Data compiled from

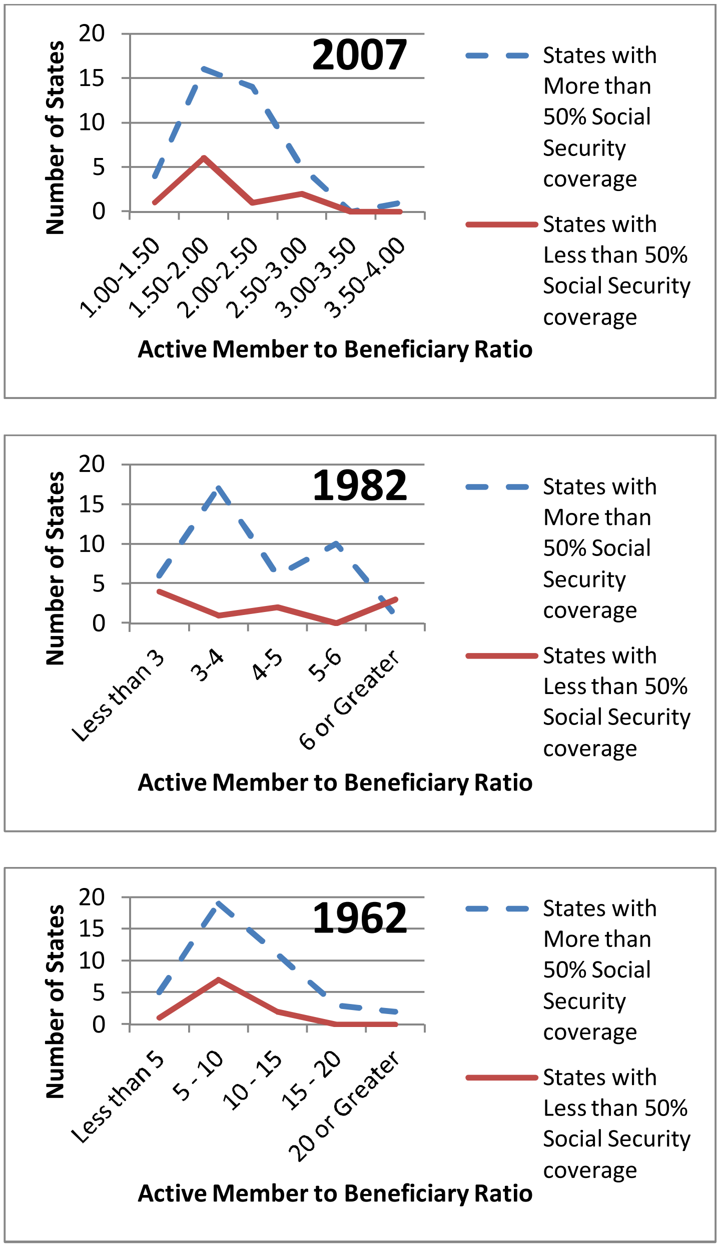
(Berry, Fording, Ringquist, Hanson, & Klarner, 2010; U.S. Department of Commerce Bureau of the Census, 1962; U.S. Department of Commerce Bureau of the Census, 1982; Government Accountability Office, 2010)

Specific Policy Factors

State and Local Government Specific Fiscal Determinants

Pension Plan Member/Beneficiary Ratio. The pension plan active member to beneficiary ratio was analyzed for all states for the years 1962, 1982, and 2007. With the exception of 1982 where the coverage changed at several levels, the charts below suggest that there is no correlation between the ratio of active member to beneficiary and the amount of Social Security coverage. Hypothesis five states that the higher the active member to beneficiary ratio the more likely the state or local government would adopt Social Security coverage for their employees. In this case, Hypothesis five cannot be confirmed. There does not appear to be a correlation between the two groups.

Figure 4-5 Active Member to Beneficiary Ratio 2007, 1982, 1962

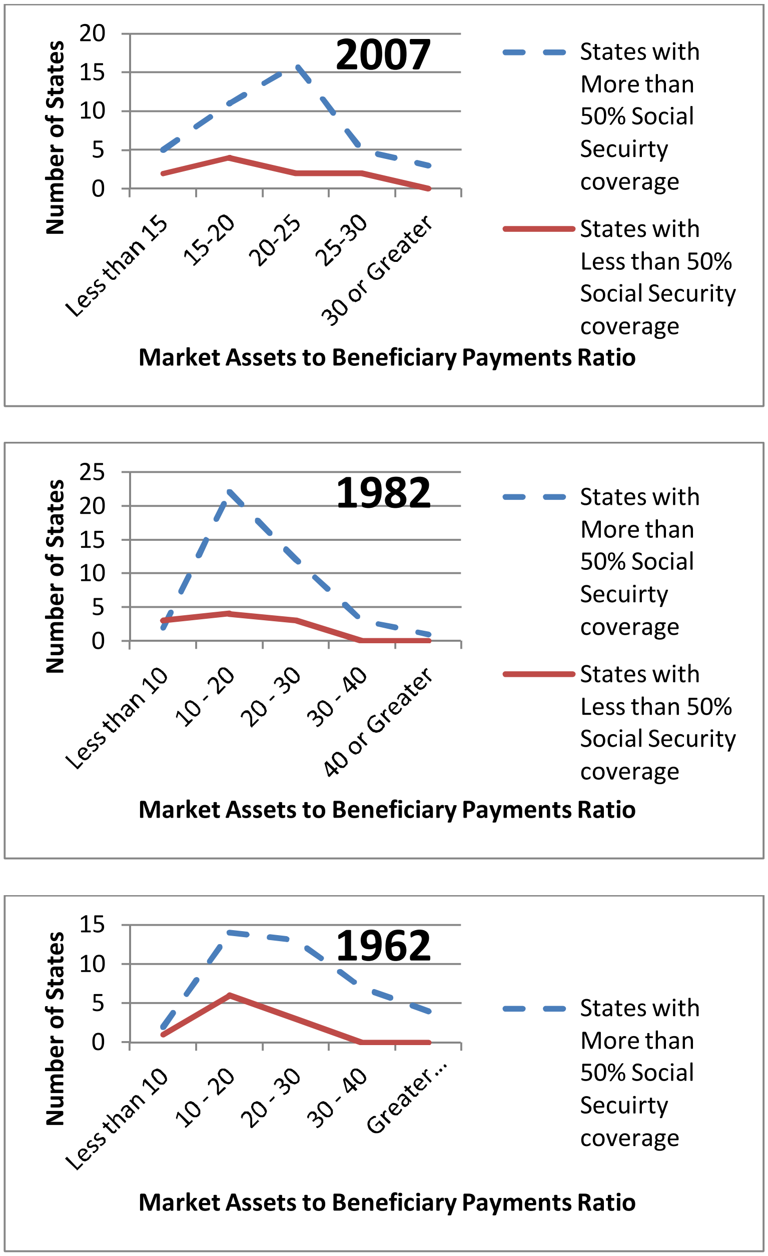


Data compiled from

(Government Accountability Office, 2010; U.S. Department of Commerce Bureau of the Census, 1962; U.S. Department of Commerce Bureau of the Census, 1982; U.S. Department of Commerce U.S. Census Bureau, 2007)

Plan Market Assets to Benefit Payments Ratio. The market assets to pension benefit payments ratio was analyzed for all states for the years 1962, 1982, and 2007. The figures below suggest that there is little difference between states with more than 50% and states with less than 50% Social Security coverage for their employees. Only 2007 showed that at the mid range more states chose coverage. Additional research needs to be done to see if there is a relationship. Hypothesis six states that the higher the plan market asset to pension benefit payment ratio, the less likely that the state or local government would adopt Social Security. Hypothesis six cannot be confirmed.

Figure 4-6 Market Assets to Beneficiary Payments Ratio 2007, 1982, 1962



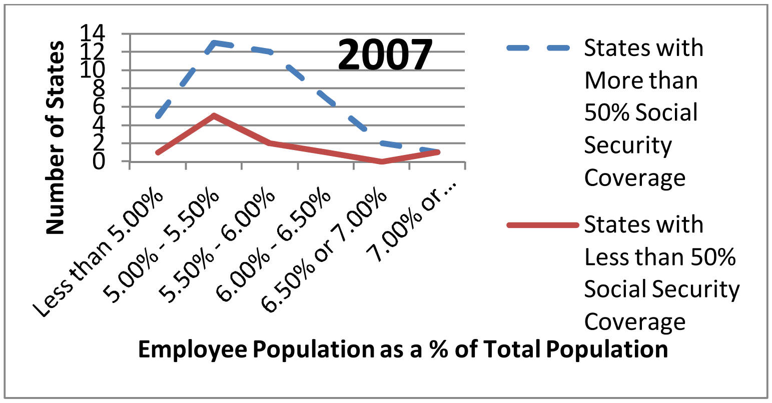
Data compiled from

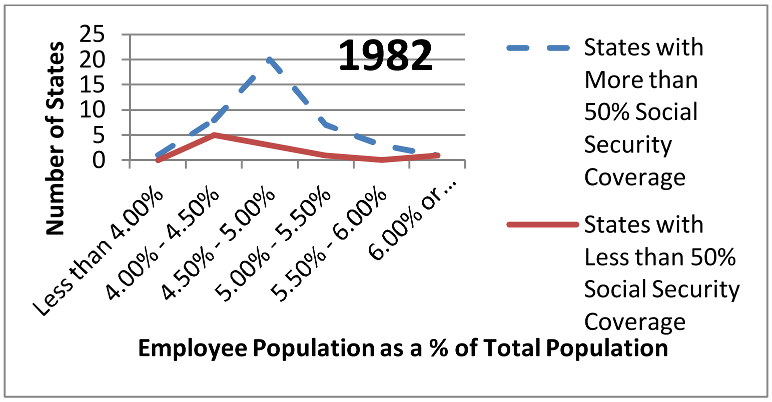
(Government Accountability Office, 2010; U.S. Department of Commerce Bureau of the Census, 1962; U.S. Department of Commerce Bureau of the Census, 1982; U.S. Department of Commerce U.S. Census Bureau, 2007)

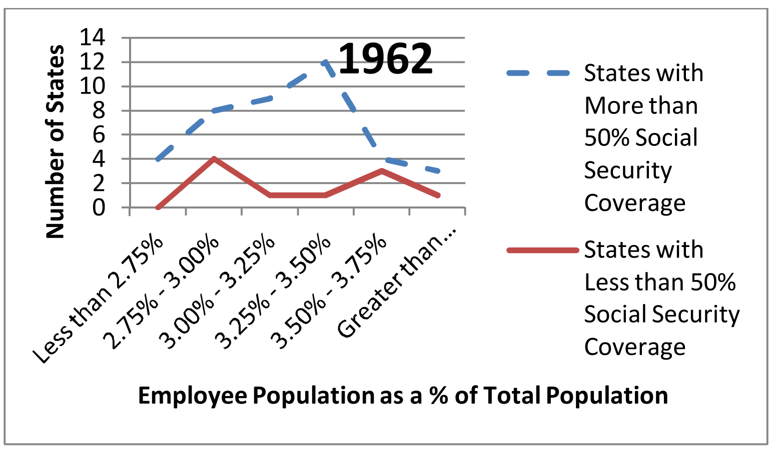
State and Local Government Specific Socio-Economic Determinants

State and Local Government Employee Population. The charts below show the comparison of the 2007, 1982 and 1962 populations of state and local government employees as a percentage of total state population. Both groups of states show an increase in numbers up to the mid-size population; and, then as the population gets larger, there are fewer states in both groups. The states with less than 50% coverage remain constant with slight dips throughout the different population sizes. The states with more than 50% coverage increase at the same level as the dips of the less than 50% coverage group. This suggests that, as the population of state and local government employees increases up to a mid-point, the state and local governments are more likely to cover their employees with Social Security. Hypothesis Seven stated that the lower the employee population the more likely the state or local government would adopt Social Security. Hypothesis Seven cannot be confirmed. The research shows that as the population gets higher, up to a mid-point, the states are more likely to cover their employees with Social Security.

Figure 4-7 Employee Population Percent of Total State Population 2007, 1982, 1962





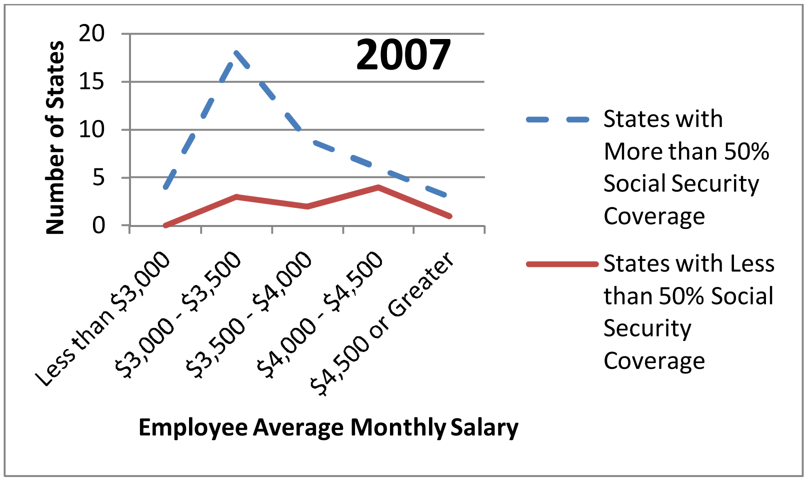


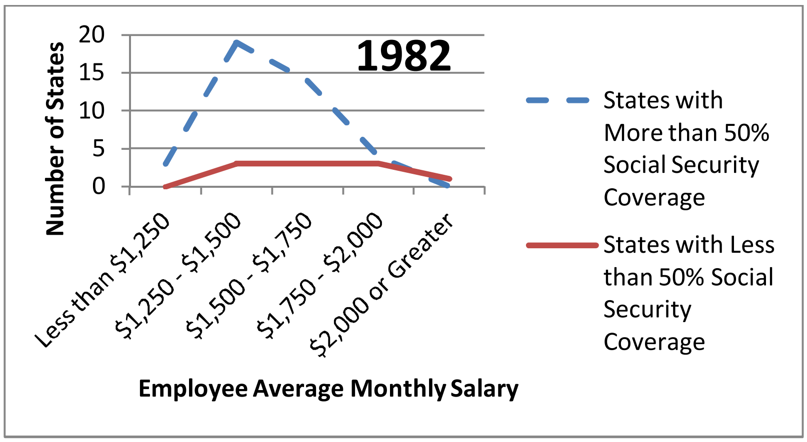
Data compiled from

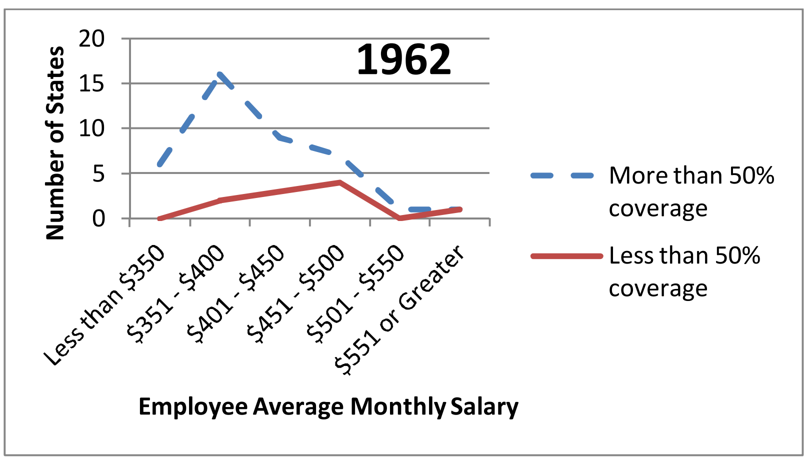
(Government Accountability Office, 2010; U.S. Department of Commerce Bureau of the Census, 1962; U.S. Department of Commerce Bureau of the Census, 1982; U.S. Department of Commerce U.S. Census Bureau, 2007)

State and Local Government Employees Average Salaries. The financial status of the employees could determine whether the employees would be willing to contribute the additional amount. Those employees with higher salaries have more disposable income than those with lower salaries. The average salary of the group that is considering Social Security could influence the outcome of Social Security coverage. However, as the employee salaries get larger, both state and local governments and their employees will be responsible for paying a higher amount than those with lower salaries. The charts below show the state and local government employee average salaries for 2007, 1982, and 1962. All three years suggest that, as the employee salaries get larger, states that cover less than 50% of their employees changes only slightly. However, the number of states that cover more than 50% of their employees drops drastically. This suggests that, as the salaries get higher, state and local governments are less likely to cover their employees with Social Security. Hypothesis eight stated that, the higher the average government salaries, the less likely that the state or local government would adopt Social Security. Hypothesis eight is confirmed. The research shows that as the salaries increase, state and local governments are less likely to participate in Social Security coverage.

Figure 4-8 State and Local Government Average Monthly Salary 2007, 1982, 1962







Data compiled from

(Government Accountability Office, 2010; U.S. Department of Commerce Bureau of the Census, 1962; U.S. Department of Commerce Bureau of the Census, 1982; U.S. Department of Commerce U.S. Census Bureau, 2007)

Summary

The purpose of this research was to examine the impact that certain variables may have on a state’s adoption of Social Security Section 218 coverage. The case study confirmed some of the hypotheses. Under External political factors, the findings indicated that the national economy does have an effect on Social Security coverage; however, it is more in the form of changing legislation. Social Security coverage legislation is more likely to be passed during times of recession.

Internal state factors may have an influence on a state’s decision to adopt Social Security coverage. Individualistic subculture states were less likely to cover their employees while traditionalistic states were more likely to cover their employees. State political ideology did not appear to have an effect on coverage. There is no indication that either liberal states or conservative states took the stronger stance in covering state and local government employees.

The research also showed that the Specific Policy Factors might have an effect on Social Security policy adoption by state and local governments. State and local governments with higher employee salaries were less likely to provide Social Security coverage. The mid level populated states were more likely to be covered than the lower or higher populated states. The financial stability of the state and local pension plans showed no relationship between the pension plan ratios and the state and local Social Security coverage group. The diffusion of policy through neighboring states may have had an influence early on; but, after 1982, no state has changed the Social Security coverage policy substantially.

State and local governments may choose whether to cover their employees for Social Security. Some states have covered almost all of their employees while other states have almost no employees covered by Social Security. This research provides insight into the reasons a state would choose to cover or not cover their employees through the Social Security 218 coverage process. The next chapter will provide research into the financial effects of mandatory Social Security on state and local government pension plans.

Chapter 5 Financial Effects of Mandatory Social Security

The final portion of this research identifies the possible financial effects of mandating Social Security. The previous research examined why a state may or may not choose to provide Social Security coverage for their employees. The issue which is driving this research is not only why state and local government employers made their choices for providing Social Security coverage for their employees but also what would be the financial consequences if mandatory Social Security were implemented for all of the non-covered employees.

The $1.38 trillion gap between pension benefits and funding identified by the 2010 Pew Charitable Trust report provides evidence of the fiscal crisis currently affecting the state and local government pension plans. With only one state, Wisconsin, being fully funded and 68% of the state pension plans at less than the 80% of the recommended funding threshold, it is imperative that changes that would impact the funding of the plans be carefully examined (Pew Charitable Trusts, 2012).

Several research projects have identified the effects that mandatory Social Security may have on pension plans of certain state and local government employees. This analysis describes some of the options for funding the employee and employer portions of Social Security coverage for non-covered employees. The research identifies not only the increased funding costs but also the effect of benefit coverage for the employees. Several state managed pension plans have been chosen to provide documentation of the effects that mandating Social Security may have on public pension plans.

If mandatory Social Security is enacted for state and local governments, then all state and local government pension could be affected causing a possible increase in the underfunding that is already being experienced. The employer costs associated with mandatory Social Security will have to either come from increases in the state or local budgets or decreasing the contributions to the pension fund to compensate for the costs.

An analysis of the costs associated with adopting mandatory Social Security for all state and local governmentsô employees was performed to determine the financial consequences. This data details the amount of employee costs and employer costs of mandating Social Security for each state and local government based on the 2007 information from the U.S. Census Bureauôs Census of Governments and the Social Security coverage data from the GAO report. The impact of the increase in coverage will have a dramatic impact on the net pay of employees, and the budget and/or pension plan of these entities. Identifying the financial consequences of mandatory Social Security will provide the decision-makers with the possible results of this type of legislation.

Current Fiscal Issues - Pension Plans

Many state and local government pension plans are experiencing dramatic fiscal challenges. The $1.38 trillion dollar gap between pension benefits and funding demonstrates the fiscal challenges for the numerous public pension plans. However, asset values for the 100 largest public pension plans grew by 8.4% from June 30, 2012 to June 30, 2012. This is the highest level in 40 years (Long, 2013). ñIncreased contributions, tightened benefits, and higher retirement age will help provide a more stable funding base for public pensionò (Long, 2013). The calculations will have a dramatic change as a result of recent policy changes.

The Governmental Accounting Standards Board (GASB) released Statements No. 67 and No. 68 that removed the parameters for calculating annual required contributions and changed the funding ratio parameters. The new computation is the Net Pension Liability that will appear in the governmentĝs basic financial statement. Plan assets will now be valued at market rate instead of actuarial values and pension liabilities covered by these plan assets will use a blended rate instead of the long-term yield rate. Under this new GASB reporting method, the aggregate funding ratios for state and local government pension plans in comparison to the old reporting method dropped from 79% to 49% in 2009 and 77% to 53% in 2010 (Alicia H. Munnell, 2011). Even though the new standard is a change in valuation and not truly a change in performance it will appear to some that pension funds are continuing on a downward spiral.

The public pension plans discussed below have made changes or have examined the consequences that are affecting the funding of public pension plans. One of the possible changes being analyzed is the mandating of Social Security for state and local government employees. As the public pension plans attempt to combat the previous fiscal challenges as well as adapt to the changes in valuation, it is imperative that any change in policy that will influence the funding of public pension be heavily considered.

Maine Pension Plan. Teachers in Maine are an example of government employees that do not pay Social Security. Steven Crouse, a member of the Legislative task force to reform Maineĝs pension system, believes that contributing to Social Security is a viable option for reform but also has concerns with it. The task force has concluded that a new plan based on Social Security would increase the cost. Currently the state contributes 5.5% of payroll to the pension plan and Social Security would require a rate of 6.2%. This increase is estimated to cost the state an additional $1.8 million within five years (Prah, 2011).

Maine also has a unique law that requires the pension plan to be fully funded by 2028. Currently the plan has a $4.4 billion unfunded pension liability. The annual pension payments on the plan are $250 million. According to J. Scott Moody, the chief economist with the Maine

Heritage Policy Center, the requirement to be fully funded would increase this figure to an estimated $1 billion over the next six years (Prah, 2011).

Moodyøs group supports a plan introduced by Governor Paul LePage that would help address the funding issue. This plan would increase the retirement age and contribution amount for state workers. A freeze on cost of living adjustments would be put in place for the next three years and future adjustments would be capped at 2 percent a year down from 4 percent. The governorøs plan does not address the Social Security issue.

Crouse, on the other hand, finds the governorøs pension proposal offensive. The requirement to fund the pension plan could cost the teachers of Maine in both retirement benefits and contribution amounts. Mandating Social Security on top of the pension funding issue would further increase the costs to the teachers. These increases could ñimpact the long term purchasing power for seniors and retirees.ò Teachers in Maine will already find themselves making less the older they get (Prah, 2011, pp. Incremental Costs, para. 5).

Illinois Pension Plan. Illinois has recently passed major pension plan legislation. In March 2010, the state legislature created a two-tier system that offered fewer benefits to new hires. Even with the change, the Illinois pension system is expected to go broke before 2020 (Lehrer, 2011). Illinois is one of the 14 states that have the largest number of employees not covered by Social Security (Prah, 2011). With the pension plan expected to go broke by 2020, there is no question that adding Social Security to the equation can only further complicate the problem.

The unfunded portion of the pension would require increases in either the state share or the employee share and possibly both. Social security would also require an increase in contributions by the state and the employee. In January 2011, the legislature in Illinois approved a 66 percent increase in income tax in order to help with the budget deficit; however, the budget issues still exist (Lehrer, 2011). The State of Illinoisô budget currently is not able to handle the increase in expenditures that would be required by the addition of Social Security and possibly pension contributions.

Mandating Social Security for Illinois teachers would be an enormous cost to the pension plan resulting in decreased contributions to the plan to offset the increased contributions required by Social Security. It would also cost the employee in their benefit package because the pension plan buys a better pension package than does Social Security. The estimated cost to the State of Illinois public schools for mandatory Social Security is an estimated $3.4 billion over 10 years (Coalition to Preserve Retirement Security, 2007).

Including Social Security for Teachers in Illinois would reduce funds available for education programs and services. The reduced funds would likely cause ñteacher layoffs, reduced textbook spending, less computer access, and fewer new and innovative programs to prepare students adequately for the workplaceò (Coalition to Preserve Retirement Security, 2007, p. para. 3). That is just the K-12 program. Higher education would also be impacted in ways similar to the K-12 issues, but with additional issues; tuitions and fees may increase and enrollment may be limited. Tough choices would have to be made in the reduction of educational opportunities for Illinois students (Coalition to Preserve Retirement Security, 2007).

California Pension Plan. The California State Teachersô Retirement System (CalSTRS) is the ñlargest teacher pension fund and the second largest pension fund in the United Statesò (CalSTRS, 2011). Their portfolio is valued at $155.4 billion. The system is responsible for 1,600 school districts, county offices of education and community college districts encompassing 852,000 public school educators and their families (CalSTRS, 2011). The educators do not currently pay into Social Security. Recent studies by other states led CalSTRS to investigate the cost/benefits analysis of mandatory Social Security.

CalSTRS conducted a study in 2011 which determined that public educators and school districts would have to pay more for retirement or receive fewer benefits if mandatory Social Security was enacted. There were two approaches to the research. One provides for keeping benefits at the current level while the other provides for keeping the costs at the current rate (CalSTRS, 2011).

The level benefits approach would increase costs by at least 12.4%, the rate of Social Security. Employers would be required to pay 6.2%, while employees would pay the additional 6.2%. This amounts to a $1.8 billion annual increase. Benefits for the retirement system would stay the same. However, there would be an increased benefit provided by the Social Security coverage (CalSTRS, 2011). Under the level cost approach, the 12.4% increase caused by the addition of Social Security would have an offset 12.4% decrease in pension funding. This decrease would cause a 33% reduction in current retirement benefits. The average replacement of pre-retirement income would be reduced by 18% from the current 61% to 43%. Current retirees that made $60,000 pre-retirement income currently would draw a retirement income of $36,600. Under the new formulation the same retiree would draw $25,800, a difference in annual pension retirement income of $10,800.

Further research was done to determine where CalSTRSô retirement rate fell in comparison to the 11 other state pension funds for teachers that do not contribute to Social Security. The research showed that CalSTRS was in the middle of the pack. Texas was on the low side with 58% and Kentucky was on the high side with 63% (CalSTRS, 2011). Having the rate reduced to 43% would be well below the norm.

California, as a state, would be the hardest hit by mandatory Social Security. The five year total would be $8.2 billion (Coalition to Preserve Retirement Security, 2006).

Colorado Pension Plan. Colorado expects it will take 30 years for the Public Employees Retirement Association (PERA) to reach full funding on an actuarial basis. This will come at the price of increased contribution rates for the employers of the State, School, and DPS Division of PERA. Mandatory Social Security would add an additional 6.2% for both the employers and the employees on top of already increasing pension rates. If mandatory Social Security were adopted, it would most likely affect only new hires (Colorado PERA, 2011).

Currently a Colorado public employee earning $43,000 per year is expected to earn a Social Security benefit equal to 42% of their salary or $18,060 at retirement age of 67 after a full career covered by Social Security. The public pension would pay 75% after 30 years of service and age 62 or $32,250, a difference of $14,190. The pension would maintain a formula of 2.5% for vested employees with less than 30 years and at age 62. Changing new hires to Social Security only would drastically affect the ability to recruit new hires into the state, the school district and other PERA employers (Colorado PERA, 2011).

Other State Pension Plans. Montana has 13,000 state and local employees that do not contribute to Social Security. If mandatory Social Security is initiated, it would cost the State of Montana an additional $86 million in payroll taxes over five years (Coalition to Preserve Retirement Security, 2006). Mandatory Social Security would cost the State of New York $649 million over the next five years (Coalition to Preserve Retirement Security, 2006). Michigan would have to pay $852 million over five years if all of their public employees were required to pay into Social Security (Coalition to Preserve Retirement Security, 2006).

Financial Research Results

The analysis revealed that the total cost to all state and local governments for the coverage of the non Social Security covered employees at the 2007 rate would be in excess of $28 billion (United States Government Accountability Office (GAO), September 2010). The ten states that had the most uncovered employees and their total annual costs, highlighted in the Table 5-1, are, as follows (rounded):

- Alaska $196 Million
- California $8.48 Billion
- Colorado $1.07 Billion
- Illinois $2.47 Billion
- Louisiana $1.00 Billion
- Maine $240 Million
- Massachusetts $2.11 Billion
- Nevada $705 Million
- Ohio $3.37 Billion
- Texas $3.55 Billion

Just these ten states equal $23 billion in one year. Fourteen additional states that cover more than 50% of their employees but have a substantial number of non-covered employees have total annual costs in excess of $100 million. These funds not only have to come from the state and local government budget, state and local government pension funds and the state and local government employees, but these financial resources are also pulled from the economy of that state and the nation.

Table 5-1 2007 Estimated Costs for Non-Covered State and Local Government Employees

2007 Estimated Costs of Social Security for Non-Covered State and Local Government Employees

	Percent of Social Security coverage	State and Local Government FTEs	Estimated Number of Employees Covered by Social Security	Estimated Number of Employees NOT Covered by Social Security	Average Monthly Salary	Estimated Total Monthly Salaries of All Employees Not Covered by Social Security	Estimated Annual Salaries of All Employees Not Covered by Social Security	Estimated Annual Employer Share of Social Security	Estimated Annual Employee Share of Social Security	Estimated Total Annual Employee and Employer Share of Social Security
ALABAMA	97%	284,680	276,140	8,540	3,193	27,270,628	327,247,531	20,289,347	20,289,347	40,578,694
ALASKA	42%	52,173	21,913	30,260	4,357	131,853,933	1,582,247,194	98,099,326	98,099,326	196,198,652
ARIZONA	92%	300,564	276,519	24,045	3,895	93,651,039	1,123,812,467	69,676,373	69,676,373	139,352,746
ARKANSAS	94%	165,666	155,726	9,940	2,902	28,849,163	346,189,955	21,463,777	21,463,777	42,927,554
CALIFORNIA	40%	1,835,452	734,181	1,101,271	5,180	5,704,148,214	68,449,778,568	4,243,886,271	4,243,886,271	8,487,772,542
COLORADO	30%	262,424	78,727	183,697	3,924	720,871,999	8,650,463,993	536,328,768	536,328,768	1,072,657,535
CONNECTICUT	55%	187,545	103,150	84,395	4,575	386,079,516	4,632,954,187	287,243,160	287,243,160	574,486,319
DELAWARE	92%	51,612	47,483	4,129	3,864	15,953,308	191,439,695	11,869,261	11,869,261	23,738,522
FLORIDA	95%	890,834	846,292	44,542	3,685	164,133,369	1,969,600,430	122,115,227	122,115,227	244,230,453
GEORGIA	75%	519,684	389,763	129,921	3,279	426,008,730	5,112,104,763	316,950,495	316,950,495	633,900,991
HAWAII	83%	71,503	59,347	12,156	4,027	48,945,504	587,346,043	36,415,455	36,415,455	72,830,909
IDAHO	98%	80,585	78,973	1,612	3,199	5,155,289	61,863,472	3,835,535	3,835,535	7,671,071
ILLINOIS	36%	645,306	232,310	412,996	4,014	1,657,785,352	19,893,424,228	1,233,392,302	1,233,392,302	2,466,784,604
INDIANA	92%	339,787	312,604	27,183	3,304	89,813,840	1,077,766,084	66,821,497	66,821,497	133,642,994
IOWA	96%	182,356	175,062	7,294	3,556	25,941,280	311,295,356	19,300,312	19,300,312	38,600,624
KANSAS	96%	187,953	180,435	7,518	3,194	24,014,376	288,172,514	17,866,696	17,866,696	35,733,392
KENTUCKY	67%	246,837	165,381	81,456	2,989	243,505,592	2,922,067,103	181,168,160	181,168,160	362,336,321
LOUISIANA	17%	264,622	44,986	219,636	3,069	674,030,264	8,088,363,174	501,478,517	501,478,517	1,002,957,034
MAINE	36%	76,382	27,498	48,884	3,305	161,544,168	1,938,530,020	120,188,861	120,188,861	240,377,722
MARYLAND	93%	300,723	279,672	21,051	4,393	92,470,194	1,109,642,324	68,797,824	68,797,824	137,595,648
MASSACHUSET	3%	334,715	10,041	324,674	4,363	1,416,527,644	16,998,331,724	1,053,896,567	1,053,896,567	2,107,793,134
MICHIGAN	95%	493,466	468,793	24,673	4,026	99,323,193	1,191,878,315	73,896,456	73,896,456	147,792,911
MINNESOTA	93%	280,783	261,128	19,655	4,012	78,845,664	946,147,962	58,661,174	58,661,174	117,322,347
MISSISSIPPI	97%	189,188	183,512	5,676	2,861	16,239,356	194,872,270	12,082,081	12,082,081	24,164,162
MISSOURI	65%	327,622	212,954	114,668	3,090	354,298,730	4,251,584,757	263,598,255	263,598,255	527,196,510
MONTANA	95%	55,982	53,183	2,799	3,173	8,882,220	106,586,638	6,608,372	6,608,372	13,216,743
NEBRASKA	91%	113,600	103,376	10,224	3,375	34,502,562	414,030,746	25,669,906	25,669,906	51,339,813
NEVADA	4%	110,317	4,413	105,904	4,477	474,157,245	5,689,886,941	352,772,990	352,772,990	705,545,981
NEW HAMPSHI	84%	72,175	60,627	11,548	3,496	40,367,728	484,412,732	30,033,589	30,033,589	60,067,179
NEW JERSEY	91%	513,111	466,931	46,180	4,887	225,685,206	2,708,222,469	167,909,793	167,909,793	335,819,586
NEW MEXICO	93%	133,660	124,304	9,356	3,099	28,998,473	347,981,677	21,574,864	21,574,864	43,149,728
NEW YORK	99%	1,232,744	1,220,417	12,327	4,617	56,911,158	682,933,899	42,341,902	42,341,902	84,683,803
NORTH CAROLI	98%	542,180	531,336	10,844	3,344	36,258,784	435,105,403	26,976,535	26,976,535	53,953,070
NORTH DAKOT/	95%	41,431	39,359	2,072	3,303	6,842,458	82,109,498	5,090,789	5,090,789	10,181,578
OHIO	1%	613,581	6,136	607,445	3,733	2,267,696,507	27,212,358,080	1,687,166,201	1,687,166,201	3,374,332,402
OKLAHOMA	92%	215,723	198,465	17,258	3,018	52,089,553	625,074,633	38,754,627	38,754,627	77,509,254
OREGON	97%	190,197	184,491	5,706	3,871	22,086,359	265,036,310	16,432,251	16,432,251	32,864,502
PENNSYLVANIA	93%	594,225	552,629	41,596	3,823	159,020,473	1,908,245,679	118,311,232	118,311,232	236,622,464
RHODE ISLAND	77%	53,798	41,424	12,374	4,445	54,994,670	659,936,035	40,916,034	40,916,034	81,832,068
SOUTH CAROLI	98%	254,272	249,187	5,085	3,107	15,800,228	189,602,736	11,755,370	11,755,370	23,510,739
SOUTH DAKOT/	98%	43,421	42,553	868	3,008	2,612,140	31,345,675	1,943,432	1,943,432	3,886,864
TENNESSEE	91%	324,520	295,313	29,207	3,205	93,605,604	1,123,267,249	69,642,569	69,642,569	139,285,139
TEXAS	47%	1,344,442	631,888	712,554	3,345	2,383,399,977	28,600,799,726	1,773,249,583	1,773,249,583	3,546,499,166
UTAH	94%	132,073	124,149	7,924	3,498	27,717,758	332,613,101	20,622,012	20,622,012	41,244,024
VERMONT	99%	39,792	39,394	398	3,579	1,424,219	17,090,631	1,059,619	1,059,619	2,119,238
VIRGINIA	98%	441,928	433,089	8,839	3,673	32,467,670	389,612,037	24,155,946	24,155,946	48,311,893
WASHINGTON	91%	340,052	309,447	30,605	4,396	134,526,057	1,614,312,680	100,087,386	100,087,386	200,174,772
WEST VIRGINIA	95%	101,073	96,019	5,054	2,999	15,154,040	181,848,479	11,274,606	11,274,606	22,549,211
WISCONSIN	96%	281,645	270,379	11,266	3,850	43,368,263	520,419,161	32,265,988	32,265,988	64,531,976
WYOMING	97%	48,050	46,609	1,442	3,436	4,952,371	59,428,448	3,684,564	3,684,564	7,369,127
		16,406,454	11,747,709	4,658,746	183,009	18,910,782,066	226,929,384,791	14,069,621,857	14,069,621,857	28,139,243,714

Data compiled from
(U.S. Department of Commerce U.S. Census Bureau, 2007; Government Accountability Office, 2010)

All states and local governments would be impacted in some form, but these examples offer some of the major issues affecting the states and local governments. The state and local governments have continual discussed the issue of mandating Social Security and the effects on their pension systems. In 1999, the National Association of State Treasurers did a survey on the impact of mandatory Social Security on States. Thirty states responded with a total impact of $437 million the first year and $5.97 billion over five years.

Also in 1999, governors of the stateǿs of Alaska, Colorado, Connecticut, Illinois, Indiana, Louisiana, Massachusetts, Michigan, Nevada, North Dakota, Ohio and Texas jointly sent a letter to President Clinton voicing their opposition to mandatory Social Security. This letter stated:

> Our public retirement systems maintain hundreds of billions of dollars in assets and provide comprehensive retirement, disability, survivor and health care coverage to millions of state and local government employees, police and firefighters, teachers, and school employeesé .Requiring payment into Social Security would create an enormous unfunded mandate on state and local governmentsé .Simply stated, reducing the strength of statesô many responsible retirement system to subsidize the federal system will hurt countless working families all across the country (State of Ohio Office of the Governor, February 22, 1999).

This financial research provided documentation of individual analysis of certain pension systems and the effects that mandatory Social Security will have on these systems. The calculations for all state and local government employees provide an estimate of the possible costs associated with mandatory Social Security. The combination of research of specific pension systems along with the total cost impact for all state and local governments provides the financial effects that mandating Social Security could have on the state and local governments, on state and local public pensions, and on state and local employees as well as on the economy of the nation as a whole. Applying the specific pension plan cases to other states and local governments could help state and local government determine the effects that mandatory Social

Security may have on their entity. It is not only important to understand why an entity adopts a policy but also the financial effects of the policy adoption.

Chapter 6 Conclusion

Social Security for state and local governments has evolved through many changes throughout history. By the time Social Security was enacted in 1935, close to half of U.S. state and local government employees were already covered by a state or local retirement plan (Clark, Craig, & Sabelhaus, 2011). By the 1940s, there were 91 separate state pension plans for teachers and state employees (Clark, Craig, & Sabelhaus, 2011). This growth in public pension plans is attributed to the growth of private pension plans and Social Security. Since the public sector was excluded from Social Security, the only way the public employers could compete with private employers was to create these public pension plans (Clark, Craig, & Sabelhaus, 2011).

In 1951, the act was modified to include state and local government employees who were not covered by a retirement system. In 1954, it was modified again to include those state and local government employees that were covered by a retirement system. The adoption of coverage was optional and those covered by a retirement system were required to hold a referendum to vote in coverage. Many state and local governments had already created public pension plans to cover their employees. ñGranting what was in effect a federal pension to these workers, on top of their government-provided pension to which they were already entitled, was viewed as a costly and politically untenable windfall during the countryõs worst economic disasterò (Clark, Craig, & Sabelhaus, 2011, p. 66).

Many of the states, however, began providing Social Security coverage to their employees. To compensate for the introduction of Social Security, it would be fair to assume that there would be a reduction in pension benefits and in employer contributions. However, this was not always the case. Eight states made no reduction in their state plans when Social Security was added. Fifteen states modified their pension systems slightly. In all cases, the aggregate of the Social Security plus employer pension benefits were greater than they had been before Social Security was introduced (Clark, Craig, & Sabelhaus, 2011).

Clark et al. (2011). wanted to learn more about the pension plansô response to the introduction of Social Security, so they conducted a survey with the National Association of State Retirement Administrators (NASRA). The plan administrators supplied the following information:

- The year their plan was established
- Whether state employees were covered by Social Security
- If covered, then the first year the employees participated in Social Security
- The nature of the adjustments in benefits or contributions when employees were first covered by Social Security
- If changes were made to the retirement plan when the state allowed participation in Social Security
- Whether the plans altered the generosity of their employer provided benefits when participation was first allowed.

Thirty-one of the 50 state retirement plans responded to the survey. Twenty states had pension plans for their employees before 1950, when Social Security was first allowed for state and local government employees. Of these 20 states, 18 adopted Social Security and 11 of these did not reduce benefits or contributions. Seven states modified their plan structure in conjunction with the addition of Social Security. Eleven states started pension plans after their employees were included in Social Security with nine creating their plan and entering Social Security at the same time. The authors suggest, ñIt would be logical to conclude that these states (and their employees) considered the cost and benefits of Social Security in developing their own pension plansò (Clark, Craig, & Sabelhaus, 2011, p. 81). Four states that responded did not adopt Social Security and remain outside the system. The authors state the following:

> *It follows that legislators and plan administrators evaluated the costs and benefits of Social Security and then decided to retain their own system without allowing their employees to participate in Social Security….We must conclude that there were economic forces, which varied by state, and which drove the states, at least partly, to the responses to Social Security that we currently see in place across the country.* (Clark, Craig, & Sabelhaus, 2011, p. 81)

Each state and local government had reasons for either adopting or not adopting Social Security coverage for their employees. These reasons either still exist or have evolved over the years. The state and local entities and plan administrators for the remaining ten states that cover less than half of their employees with Social Security have the option to cover their employees.

This research gives some insight on what might influence a state or local government to adopt Social Security coverage for their employees. The External Political research questions attempted to identify whether political issues, such as the economic stability of the nation and the policy adoption of neighboring states, affected whether the state and local government adopted Social Security coverage for their employees. The Internal State research questions used Daniel Elazarôs three different political subcultures, individualistic, moralistic, and traditionalistic, to determine if political subculture influenced states to adopt Social Security coverage (Elazar, 1984; Rausch, 2013; Riley, 2013). The Berry et al. (2010; 1998) data provided the U.S. State Government Ideology Indicators for all states from 1960-2010. This information was used to identify the different ideological makeup of the different states for the different time periods.

The Policy Specific research questions used several pension-related values to determine the fiscal profitability of the pension plan as well as the national economic recession figures of the states. This information was obtained from the U.S Census for 1962, 1982 and 2007. The economic depression/recession figures came form the National Bureau of Economic Research.

The demographic information-related research questions came from various sources. The average state and local government salaries and employee population came from the U.S. Census Data. The neigboring states were identified from the Berry and Berry research article (Berry & Berry, 1990).

Findings

External Political Factors

Economy of the Nation. Hypothesis one stated that during periods of economic recession, employees and employers would be less likely to vote to participate in Social Security coverage. The time periods analyzed all were during or shortly after a recession. As mentioned earlier the recessions may have triggered the federal, state, and local administrators to enact legislation to provide Social Security coverage to those groups without coverage. Because these laws enacted requirements for certain individuals to participate in Social Security, the change in coverage would not necessarily come from a voting public.

Policy Adoption of Neighboring States. In the early years, it did appear that diffusion of policy adoption through neighboring states influenced whether a state adopted Social Security policy. However, because of the decline in activity over the years, it was hard to tell whether the later years were affected by any policy adoption diffusion. The existing states with less than 50% coverage have been not changed in over 30 years. These states do not appear to be followers of their neighboring states. Hypothesis two, which stated that states where most of their border states have adopted Social Security would more likely adopt Social Security coverage for their employees, may have been true in the early years; but, due to lack of activity, that hypothesis cannot be tested.

Internal State Factors

Political Subculture. Political scientist Daniel Elazar believed that political culture among Americans was one of the reasons that states enacted different policies to deal with similar problems. Hypothesis three stated that individualistic states would be less likely to participate in Social Security coverage for their employees. The individualistic subculture, more prominent in the Middle-Atlantic and Western states, sees governments as practical and limited in the need for intervention in private activities (Rausch, 2013; Riley, 2013; Elazar, 1984). The results from the research determine that individualistic states indeed were less likely to participate in Social Security. Even though between 65% - 71% of the individualistic states provided Social Security coverage for their employees, this amount was less than the traditionalistic and moralistic states.

Table 6-1 Political Subculture 1962, 1982, 2007

	More than 50% Social Security Coverage and Traditionalistic	More than 50% Social Security Coverage and Individualistic	More than 50% Social Security Coverage and Moralistic
2007	88%	71%	82%
1982	88%	65%	82%
1962	94%	71%	76%

Data compiled from

(U.S. Department of Commerce Bureau of the Census, 1962; U.S. Department of Commerce Bureau of the Census, 1982; Government Accountability Office, 2010; Riley, 2013; Elazar, 1984)

The traditionalistic subculture, prominent in the Southern states, sees government as a positive role in the community that is limited to securing social order and is custodial rather than innovative (Rausch, 2013; Riley, 2013; Elazar, 1984). The traditionalistic states were more likely to provide Social Security coverage for their employees with 88% - 94% coverage of at least half of the employees. Only two of the traditionalistic states, Louisiana and Texas, did not cover at least half of their employees with Social Security.

Political Ideology. Political ideology may influence whether a state will adopt new public policy. Hypothesis four stated that liberal states would be more likely to participate in Social Security coverage for their employees. With each year of research ï 1962, 1982, and 2007 ï the political ideology changed for some states. In 1962, 90% of the conservative states and 72% of the liberal states covered at least half of their employees with Social Security. In 1982, liberal states were more likely to cover their employees with 83% of the liberal states covering more than half of their employees while only 77% of the conservative states covered at least half of their employees. In 2007, the numbers more closely resembled the 1962 data. In 2007, 91% of the conservative states covered at least half of their employees with Social Security while only 77% of the liberal states provided coverage to more than half of their employees. Further research needs to be performed to see if the 1982 number was due to other circumstances. If 1982 was happenstance, then the use of the political ideology may help identify why some states choose Social Security for their employees and others do not.

Table 6-2 Political Ideology 1962, 1982, and 2007

	More than 50% Social Security Coverage and Conservative	More than 50% Social Security Coverage and Liberal
2007	91%	77%
1982	77%	83%
1962	90%	72%

Data compiled from

(U.S. Department of Commerce Bureau of the Census, 1962; U.S. Department of Commerce Bureau of the Census, 1982; Government Accountability Office, 2010; Berry, Fording, Ringquist, Hanson, & Klarner, 2010)

Specific Policy Factors

State and Local Government Specific Fiscal Determinants. The state specific fiscal determinants, the ratio of active members to beneficiaries in the state and local public pension system, and the ratio of market assets to benefit payments in the public pension system were analyzed to see if the funding availability influenced a state to choose to cover their employees with Social Security.

Active Members to Beneficiaries Ratio. Hypothesis five stated that state and local governments with higher ratios of active members to beneficiaries are more likely to adopt Social Security coverage for their employees. This could not be confirmed. There did not appear to be a relationship between active members to beneficiaries and Social Security coverage.

Plan Market Assets to Benefit Payments Ratio. Hypothesis six stated that state and local governments with higher ratios of plan market assets to pension benefit payments are less likely to adopt Social Security coverage for their employees. This hypothesis also could not be confirmed. There does not appear to be a relationship between pension plan funding and Social Security coverage.

State and Local Government Specific Socio-Economic Determinants. The state and local government specific socio-economic variables are average salary for the state and local government, and government employee population as a percentage of total population.

Average State and Local Government Salary. Hypothesis seven stated that states with higher average government salaries would be less likely to participate in Social Security coverage. This hypothesis was confirmed. As the salaries increased, the number of less than 50% coverage states increased. This would suggest that as the cost of providing the 6.2% Social Security increases the state and local governments are less likely to provide coverage for their employees.

Number of Government Employees. Interestingly, as the number of state and local government employees increased up to a mid-point, state and local governments were more likely to provide Social Security coverage to their employees. Hypothesis eight stated that states with larger state and local government employee populations will be less likely to participate in Social Security coverage for their employees. This hypothesis was not confirmed and the opposite was true. The explanation could be that, as the population grew, it became more cost efficient to pay the federal government to provide the administration and benefit coverage packages.

Summary of Research Results

The results of this research suggest that there appear to be several factors that contributed to state and local government choosing coverage for their employees. The following items possibly contributed to state and local government Social Security policy adoption.

- Traditionalistic states are more likely to adopt Social Security coverage where individualistic states are less likely to adopt Social Security coverage.

- In the later years, liberal states are more likely to adopt Social Security coverage than conservative states.
- The funding status of the state and local government pension plan does not appear to play a part in whether a state or local government adopts Social Security coverage for their employees.
- State and local governments with higher average employee salaries are less likely to adopt Social Security coverage.
- State and local governments with mid-range populations of employees are more likely to adopt Social Security coverage.

This research not only contributes to the study of policy adoption and, specifically, State Social Security Policy Adoption, but may also contribute to helping decision makers understand the reasons why state and local governments do not choose Social Security coverage for their employees. This study identified the characteristics of each of the 50 states and, through analytical testing, identified the policy adoption characteristics of the states over the given time periods.

The research also identified the financial effects of mandating Social Security on certain state and local government pension plans. The effect on the total population of noncovered state and local government is in excess of $28 billion. Specific pension plans in Maine, Illinois, California, Colorado, Montana, New York and Michigan were analyzed to reveal the financial effects to these individual pension plans. The effects of mandatory Social Security can be devastating not only to the state and local governments budgets, pension plans and their employees but also to the economy of the nation. It is important that appropriate future research be done to identify all possible alternatives.

Contributions to Literature and Theory

The original Social Security Act, established in 1935, excluded public employees. Over the years, the Act has been modified to include public employees at different levels. The idea of including public employees was first addressed in 1939, just four years after the Act passed. By 1951, the Act had been modified to allow state and local governments to voluntarily include public employees in the Social Security system. If the employees were included, they would pay the Social Security contributions as well as the employers would pay their equal share of the contributions. The employees would in turn receive Social Security benefits.

Over the years since the enactment of the Social Security Act, the issue of mandating Social Security for state and local governmentsô employees has been addressed. Although a small amount of research into the effects of mandatory Social Security on state budgets and pension plans has been performed, there is no research into why a state or local government would choose to adopt or not adopt Social Security for their employees.

This research developed a model that allowed for the study of External Political Factors, Internal State Factors, and Specific Policy Factors that may identify the factors that led a state or local government to adopt Social Security coverage for their employees. This study goes beyond just identifying the effects of mandatory Social Security. It also looks at a longitudinal history of policy adoption factors that may influence state and local government to adopt certain policies. Identifying some of the decision-making processes of the past may help provide for future policy adoption decisions. This study was distinctive in its use of Social Security coverage percentage to identify a state and trace that coverage to possible factors.

Not only does this research provide for additional literature related to Social Security policy adoption, specifically as it relates to state and local governments, it also has provides a comparison of similar policies that are unique in their adoption by state and local governments. Many voluntary policies are enacted because of a financial benefit to the government enacting the policy. This policy, along with Medicare, is different than most federal/state intergovernmental policies in that it does not come with a financial offset. State and local governments adopted these policies as a benefit to their employees with a cost to the government. This research can be used to provide documentation about the decision making process and to analyze the effects of future voluntary policies that do not have a financial offsets.

This research linked together the theoretical foundations of federalism, intergovernmental relations, diffusion, organizational decision-making, lesson drawing and political subculture and ideology with Medicare, Medicaid and Unemployment and in turn related it to the past Social Security policy adoption decisions. These fundamental theories do not only help explain past decisions but provide a basis for analyzing the effects that future decisions may have on state and local governments.

Practical Implications

This research provides insight into the factors that affect Social Security policy adoption. Many of the findings of this study have practical implications. This study indicated that not only political factors but also financial factors influence state and local governments in their policy-making decisions. This research will help public administrators at the federal, state, and local levels understand the reasoning behind state reactions to Social Security policy adoption and what may need to be considered when discussing, enacting, or implementing mandatory Social Security coverage for all state and local employees. Concerted efforts between the federal, state, and local government administrators should be made to analyze the factors identified that influence state and local governments in the Social Security policy adoption process.

There are many issues that need to be addressed related to Social Security. Mandating Social Security has been considered as a means of providing additional funding to the program but at the expense of the state and local governments and their employees. In July 2013, the Committee on Ways and Means addressed Social Security reform. The document stated that Medicare would be bankrupt by 2026 and Social Security would be cut by 23% in 2033 (House Committee on Ways and Means, 2013). Mandatory Social Security should not be enacted as a means for solving the funding issues of the program.

There are also issues with individuals not covered by Social Security. In October 2013, *CNN Money* produced an article relating to older workers having to delay retirement plans. A Louisiana retired teacher had to go back to work after retirement. When she retired, she had about $100,000 in savings and a government pension. She used most of her savings and her pension was not enough to pay her bills. Since her employer did not participate in Social Security she is not eligible to receive benefits (Sedensky, 2013). This could provide support for ensuring that public pensions are properly funded as well as ensuring that those public pensions plans are equivalent or better in both their financial and benefit resources. The state and local governments should be able to decide whether to cover their employees with a pension program equivalent to federal Social Security without having to mandatorily participate in the federal Social Security program.

This information can be used by the federal, state and local government public administrators to understand the implications of mandatory Social Security as well as the issues related to state and local governments employees not covered by federal Social Security. The research results can also be used in the decision making process related to the adoption of taxes or fees based on employee salaries The issue of mandatory Social Security will surface again in the future and working together to address the influencing factors may provide insight into a solution to the problem.

Limitations

The major limitation of this study was the lack of detailed information related to the topic. In the early years, from around 1950 ï 1980, there appeared to be more information about the coverage groups such as state and local governments, teachers, police, firefighters, etc. than there is today. This could be a result of the change of collection mechanisms of the Social Security contributions. Until 1987 the states were responsible for collecting the state and local government Social Security contributions and depositing these contributions into an account at the Federal Reserve Bank. Therefore, the states were able to identify the different entities as well as individuals that were responsible for submitting the contributions. Since 1987, the contributions have been treated as taxes and sent directly to the IRS for processing by the different employers (state and local government employers) in much the same way that the private sector remits its Social Security taxes (Social Security Administration, 2013). This change also took the rights to some of the Social Security information away from the State Social Security Administrators and left the Administrators trying to manage a system with a lack of all the pertinent information.

There has been a continual debate among the State Social Security Administrators, the Internal Revenue Service and the Social Security Administration over which areas of responsibility belong to each group as well as the rights over information to the different groups. Each state is responsible for monitoring the activities within the state to identify new entities, changes, and deletions to the entities, new positions within the state and the identification of different coverage groups. Many states are not complying with the modification requirements of the 218 Agreement. The Internal Revenue Service (IRS) performs audits of governmental entities; the audits include compliance with the 218 Agreement. Audits of the states and local governments revealed government employees who were participating in Social Security that did not have a supporting 218 modification. The audits also revealed government employees that were not paying Social Security because of incorrect interpretations of definitions and modifications. The audits triggered Congress to investigate the status of the 218 Agreements and the major issues surrounding the maintenance of the agreement. Congress appointed the Government Accountability Office (GAO) to investigate the situation. The reason for the investigation is stated below:

> *Because of the need to ensure Social Security coverage is administered accurately, GAO was asked to review (1) how SSA works with states to approve Social Security coverage and ensure accurate coverage of public employees, and (2) how IRS identifies incorrect Social Security taxes for public employees.* (United States Government Accountability Office (GAO), September 2010, p. Cover)

In response to the research, the GAO provided the following reconmmendations:

> *GAO recommends that SSA work with IRS, state administrators, and public employers to improve management oversight and monitoring of public employer reporting of Social Security wages and that SSA clarify its guidance on state administrator responsibilities. GAO also recommends that IRS track errors found through compliance efforts and share results with SSA to the extent permitted by law. SSA and IRS reviewed the report and agreed with the recommendations.* (United States Government Accountability Office (GAO), September 2010, p. Cover)

A concerted effort among the three groups, Social Security Administration, Internal Revenue Service and the state administrators needs to be undertaken to resolve the issues. Some proponents of mandatory Social Security suggest mandating Social Security for state and local government employees because of the difficulty in administering the Social Security Section 218 law. Even if mandatory Social Security was enacted, it would most likely start with new hires.

There would still be many years of maintaining the existing records of those that were covered under a Section 218 Agreement.

Another limitation of the study was the amount of current data available. In the past, the U.S. Census Bureau collected and published the information about state and local Social Security coverage in the Census of Governments. That information is no longer readily available. The 2007 numbers of coverage for state and local government employees were obtained through the research by the GAO done in 2010.

Future Research

This research examined the financial effects that adopting Social Security may have on the state and local government budgets, pension plans, and employees at a very high level. Since these entities have chosen not to adopt Social Security coverage, it can only be suggested that the adoption of Social Security coverage would have a negative effect on the entities and its employeesô economic welfare. Many of the state pension funds are currently experiencing fiscal stress. The research provides possible scenarios of what effects participating in Social Security may have on the financial stability of the pension plan and the state and local government budgets.

This study provides a foundation for deeper research into the financial effects of mandating Social Security coverage on state and local governments. Future research should be performed to analyze the differences between those state and local government pension plans that have adopted Social Security coverage for their employees in and those state and local government pension plans that did not adopt Social Security coverage for their employees. Analyzing the differences in contributions and/or benefits of the different pension plans may provide indications as to why the choice was made to adopt Social Security coverage.

Additional research should be employed to identify what the administrators of both the state and local governments and the pension plans would do if mandatory Social Security were adopted. Identifying the options for funding the increase in both the employer and employee contributions by the state or local budget, pension plans and/or employees needs to be examined to provide documentation of the actual financial effect of mandating Social Security.

The topic of mandatory Social Security will continue to be considered. It is important that future researchers continue to investigate not only the factors that may affect whether a state or local government adopts Social Security for their employees as well as future similar policies. It is also important that researchers continue to identify the consequences of the adoption of these voluntary policies.

> *The enduring reality--the great political strength and administrative nightmare--is that no policy decision in the United States is ever final.* (Kettl, 2002, p. 57)

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